April 2010

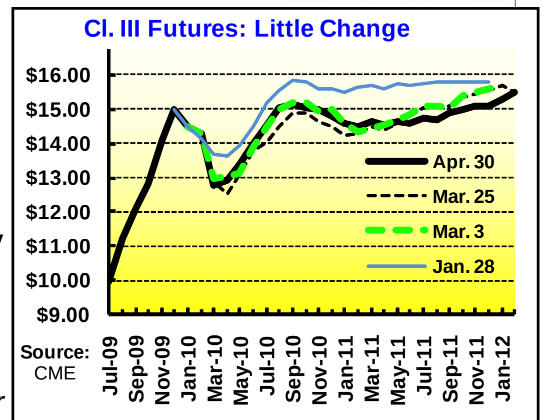
National Milk Producers Federation

Volume 13, Number 4

Dairy Market Report

Executive Summary

- Cheese, butter prices down from our last report:
  - blocks up 6¼¢ to $1.38¾/lb., as of April 30th
  - barrels up 6¾¢ to $1.38/lb.
  - butter up 13¢ to $1.62/lb.
  - NASS powder near $1.18/lb, up 14¢.
- Outlook: Stronger butter and powder markets may take time to translate to the cheese markets; production continues up.



Market Outlook

Dairy markets appear stronger. Cash prices for butter and powder are up. Cheese prices are up modestly, although Class III futures are little changed from last month. Global economic recovery seems to promise revived demand. Butter stocks are down and government powder stocks have been cleared out; but commercial cheese stocks are very large. To reduce this weight on cheese markets, Cooperatives Working Together (CWT) has already announced its support for 19 million lbs. of cheese exports to new markets.

U.S. dairy farmers suffered their worst year in memory in 2009, as milk prices collapsed without compensating reductions in feed costs. U.S. producers proved resilient, and milk output over the 12 months ending with March was down only one quarter of one percent. Their bottom line recovery through recent months has been modest and halting: very modest reductions in prices for grains and oilseeds and modest increases in milk prices, allowing producers to cover costs, but without beginning to recover the heavy debts incurred and equity lost over the previous 18 months. Markets anticipate that milk and feed prices will be sustained for the rest of the year at levels that will allow farms to cash flow.

Shrinking butter stocks, and high world prices suggest a bump in butter and (especially) powder prices over the coming months. However, there might be some difficulty in translating this to higher cheese prices. One reason is that the Federal orders discourage the convergence of butter-powder and cheese milk values. Another reason is that milk production has been shifting back to the grow-your-own-feed Upper Midwest, where processing capacity leans heavily toward cheese.

In the longer run, a large supply of heifers resulting from the spreading use of sexed semen is making it cheaper and easier to replace cull cows and encouraging more aggressive selection; this could boost U.S. production in the medium run, and speed the growth in milk per cow in the long run. However, if the world's economic recovery is robust, demand could outpace production and return dairymen to profitability.

USDA announced the Class I base price for May at $13.80 per cwt., up 58¢ from April, based on rising butter and powder prices. As a result, the Milk Income Loss Contract payment rate for May is now expected to be zero; and after April's payment rate of 21¢ per cwt., no additional MILC payments are now projected in 2010 or 2011, based on futures prices. 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	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	17.05	16.94	0.0000
June	18.00	16.94	0.0000
July	18.77	16.94	0.0000
August	19.12	17.02	0.0000
September	19.26	17.00	0.0000
FY 2011			
October '10	19.34	17.11	0.0000
November	19.37	17.11	0.0000
December	19.29	17.13	0.0000
January '11	18.91	17.31	0.0000
February	18.05	17.31	0.0000
March	17.87	17.31	0.0000
April	17.97	17.43	0.0000
May	17.93	17.43	0.0000
June	17.99	17.54	0.0000
July	17.97	17.54	0.0000
August	18.09	17.51	0.0000
September	18.06	17.50	0.0000

Projections based on futures as of 4/30/2010

The Dairy Market Report is created for Dairy Management Inc.

The Nutshell

Production v. last year:

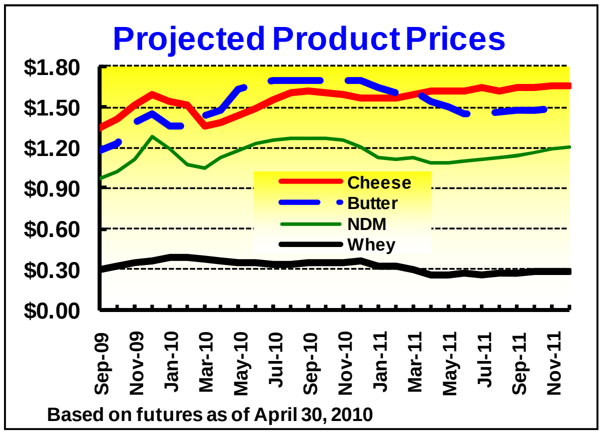
• Feb. Cheese	⬆	1.0%
• Feb. Butter	⬇	3.1%
• Feb. NDM+SMP	⬇	4.6%
• Feb. Whey	⬆	4.4%
• March Milk	⬆	0.6%

Prices:

NASS	Mar.	Apr.
Cheddar	1.36	1.38
Whey	0.38	0.36
Butter	1.44	1.48
NDM	1.05	1.12
Milk	**Mar.**	**Apr.**
Cl. III	12.78	12.92
Cl. IV	12.92	13.73
All	14.80	14.60

Cheese and Whey

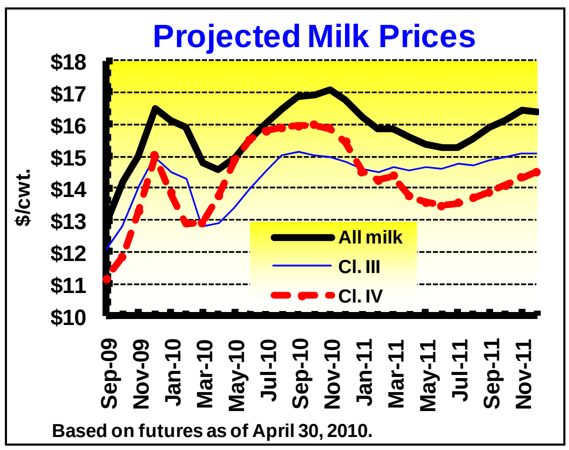
Total U.S. **cheese** production (excluding cottage cheese) was 777 million lbs. in February, up 1.0% from a year ago; and up 2.2% from January, on an average daily basis. American types totaled 319 million lbs. in February, down 0.6% from last year and up 1.6% from January, on an average daily basis. Italian types were 333 million lbs., up 4.0% from last year and up 1.6% from January, on an average daily basis.



Based on futures as of April 30, 2010

USDA-reported stocks of American cheese opened April at 601 million pounds, up 10% from last year, and up 2½ million pounds from March 1. April's opening stocks of other cheese, including Swiss, were 400 million pounds, up 9% from a year ago, and up 12 million pounds from March. April 1 total cheese stocks were over ***one billion*** pounds, up 9% from last year and up 15 million pounds from March 1, modestly above the the 10-year average stock growth of 13 mil. lbs. during March.

U.S. was a net cheese exporter in February for second month in a row, and only the fifth month in at least 20 years.



Based on futures as of April 30, 2010.

Commercial disappearance of American cheese in the quarter ending with February was 1.01 billion pounds, down 3.5% compared to a year earlier, as reported by USDA. Other types were up 5.4% to 1.52 billion pounds. Commercial disappearance of all cheese was up 1.7%.

As of April 30, the CME block cheese price was up 6¼¢ per pound from our last report, to $1.38¾; the barrel price was up 6¾¢, to $1.38. Class III (cheese milk) futures prices have been little changed. (See graph, p. 1.)

April 30 futures project cheese prices to average $1.55 over the next six months (May through October), $1.52 for all of 2010, and $1.62 for 2011.

U.S. cheese exports in February were 22 million pounds, up 17% from a year ago, and about 2½% of U.S. cheese production. Imports were down 43% from a year ago to 19 million pounds. As a result, the U.S. was a net exporter in February for the second month in a row and for only the second time in over two years. Net exports were 2.6 million pounds.

The retail price of cheddar cheese was $4.71 in March (down 1% from last year). Processed cheese averaged $3.91 at retail in March, up 1% from a year ago.

Production of dry **whey** for food was 75 million lbs. in February 2010, up 7% from a year ago. Production of all whey products was up 3.8%. (See table.)

The manufacturers' price of whey was down a couple pennies from last month, at about 35¢ per lb. the week of April 24, 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 35¢ for the next 6 months, 36¢ for all of 2010, and 28¢ for 2011. The whey price is down slightly to about 50¢ per lb. in Western Europe. **dmr**

Whey Products

Product	February Production		March 1 Maker Stocks	
	Mil. lbs.	Change v 2009	Mil. lbs.	Change v 2009
Whey, food	75.0	7.3	41.9	-11.6
Whey, feed	2.9	-37.7	1.6	-37.1
WPC25-50	19.0	-5.9	21.0	6.1
WPC50-91	12.3	11.2	14.3	-4.6
WPI90+	4.3	21.7	10.4	36.0
Total	***113.6***	***3.8%***	***89.2***	***-3.4%***

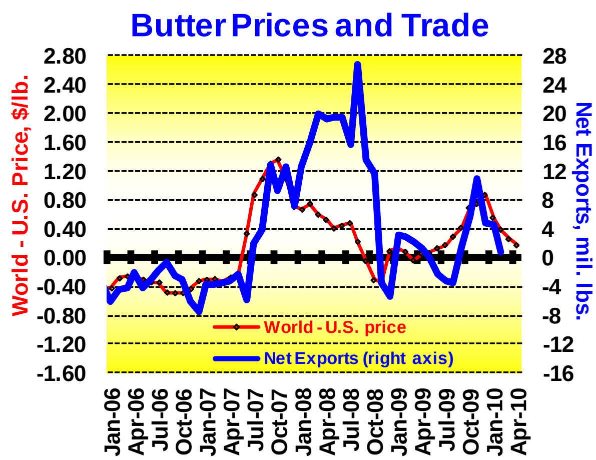
Butter

February U.S. butter production was 141 million lbs., down 3% from a year ago, and down 4% from January, on an average daily basis; it is down 5.4% for the year to date. April 1 stocks were 197 million pounds, down 7% from a year ago, and down 7 million lbs. from March; compare this to the 10-year average stock *increase* during March of 11 million pounds.

Commercial disappearance (including exports) of butter in the three months ending with February were 392 million pounds, down 2% from a year ago; all milkfat was up 0.5%.

The retail butter price was $2.78 per lb. in March 2010, down 6¢ from the previous month and down 5% from 2009. The CME butter price was up 13¢ since our last report, to $1.62 on April 30. Futures project NASS butter at $1.68 for the six months through October, $1.59 for all 2010 and $1.52 for 2011.

U.S. net butter exports in February were 845,700 lbs, compared with net exports of 3 million lbs. a year ago. World butter prices are up, and still higher than U.S. prices: butter is about $1.89 in Europe, and about $1.72 in Oceania, according to USDA's international report **dmr**



Dry Milk Powders

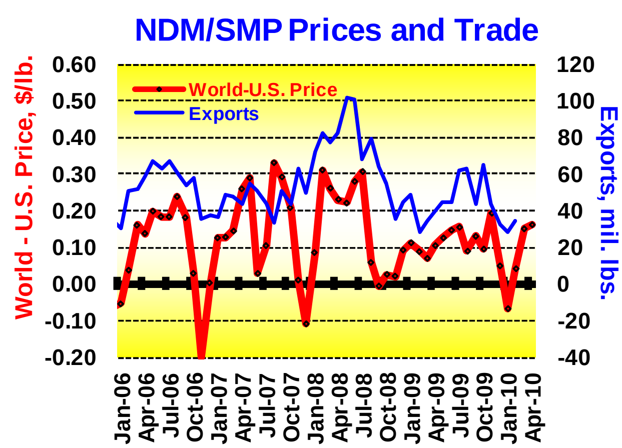
As reported by USDA, U.S. nonfat dry milk production, including protein-standardized "skim milk powders" was 139 million lbs. in February, down 5% from a year ago. Year-to-date production is down 10%. March 1 manufacturers' stocks of (only) nonfat dry milk were 148 million lbs., down 22% from last year, but up 10 million pounds from February 1.

Since our last report, the CME price of extra grade nonfat dry milk was up 13¢ to $1.25 and grade A was up 14¾¢ to $1.29¾ per lb., on April 30; this compares to the average surveyed U.S. manufacturers' price of $1.18 for the week of April 24.

In February 2010 exports of nonfat dry milk and skim milk powders were 34 million pounds, up 22% from last February's total, and nearly a quarter of U.S. powder production that month.

Skim milk powder was last reported by USDA at about $1.60 in Oceania, based on New Zealand auction results, and about $1.45 in Western Europe.

Commercial disappearance of nonfat dry milk (including exports, but excluding modified "skim milk powders") in the three months ending with February was 334 million pounds, up 4.0% from a year ago; for all skim solids, commercial disappearance was up 1.8%. **dmr**



Yogurt, Ice Cream, and Fluid Milk

U.S. yogurt production in February was up slightly (0.2%) from last year, and up 2.7% from January, on an average daily basis; for the year to date, it is up 5.4%. Ice cream production was down 1% to 90.5 million gallons, and ice cream mix production was up 4% to 53 million gallons, from a year ago. The total for the year to date is down one half percent.

The retail ice cream price was $4.31 per ½-gallon in March, up 3.5% from last year.

Fluid milk sales for February were down 0.1% from a year ago, when the retail price of whole milk was down 3.5%. March's retail price was $3.19, up 2.3% from a year ago. **dmr**

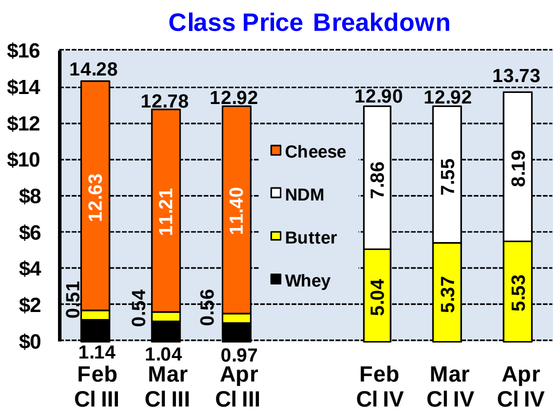
U.S. Fluid Milk Sales

Product	February 2010 Mil. lbs.	%	Year to Date 2010 Mil. lbs.	%
Whole Milk	1,125	-3.3	2,360	-4.8
Flavored Whole Milk	43	-8.0	86	-6.7
Organic Whole Milk	29	1.5	62	3.8
Reduced Fat Milk (2%)	1,476	2.6	3,112	1.4
Low Fat Milk (1%)	564	4.5	1,184	8.5
Fat-Free Milk (Skim)	647	0.8	1,348	-0.8
Flavored Fat-Reduced	344	-1.7	705	-0.5
Organic Fat-Reduced	96	-0.2	202	1.7
Buttermilk	37	-33.5	76	-41.3
Total (including "Other")	**4,367**	**-0.1**	**9,148**	**-1.2**
Total (calendar adjusted)	**4,367**	**-0.1**	**9,200**	**0.1**

Source: USDA/AMS, Dairy Market News

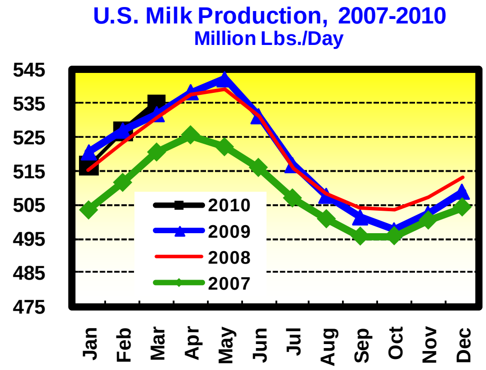
Milk and Feed

U.S. milk production in March was 16.58 billion lbs., ***up 0.6%*** from a year ago. Milk per cow was up 2.7%, which more than offset the (largely CWT-driven) herd reduction of 193,000 cows (2.1%) since a year ago. The herd was unchanged from this February, after two months of month-to-month increases. Weekly slaughter has been above last year; but a larger



slaughter is necessary to keep the herd even, as the heifer supply has been boosted by the expanded use of sexed semen. (See graph.) USDA now projects milk production to be up 0.3% for all of 2010.

April's Class III price was announced at $12.92, up 14¢ from March ($12.78, down $1.50 from February), and up $2.14 from last year. May is projected at $13.40. Class III futures prices for the next six months (May through October) averaged $14.50 per hundredweight on April 25, and they project averages of $14.30 for



2010 and $14.75 for 2011. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The April Class IV price was $13.73, up 95¢ from March ($12.92), and up $3.91 from last year. May is projected at near $15.00, as butter and powder values rise. Futures markets project Class IV milk to average about $15.70 for the next six months, $14.90 for 2010, and $14.00 for 2011. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

April component prices were: $1.5813 per lb. (up 5¢ from March) for butterfat in Class III, Class IV, and producer milk; $2.1449 (up 1¢) for protein in Class III and producer milk; $0.9435 (up 7½¢) for total nonfat solids in Class IV milk; and $0.1702 (down 1¢) for other solids in Class III and producer milk.

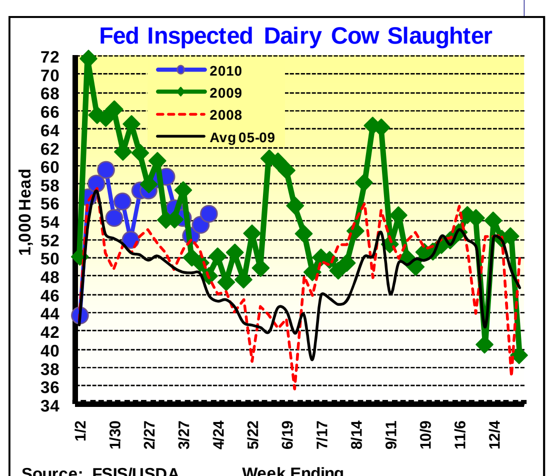
The Class II price was down 68¢ in April, to $13.78. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. May is projected at $14.60.

May's Class I base price was announced at $13.80, up 58¢, based on rising powder and butter 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.

April's all-milk price is $14.60, down 20¢ from March. May is projected at near $15.00. The futures markets project the all-milk price to average $16.10 for the next 6 months, $16.00 in 2010 and $15.80 in 2011.

Feed costs: corn and soy are up: near month corn and soy futures are $3.66 (up a dime since our last report) and $9.89 (up 37¢) per bushel on April 30. Futures markets project 2010 averages for corn at $3.70 ($4.10 in 2011) and soybeans at $9.75 in 2010 and $9.90 in 2011.

dmr



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