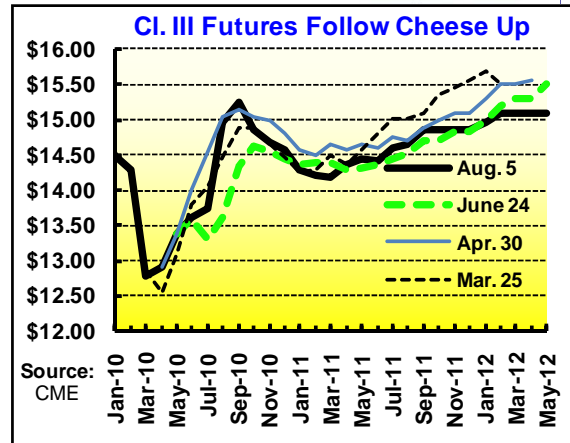




Dairy Market Report

Executive Summary

- ➔ Cheese prices mixed, butter price up, since our last report, as of August 5th:
 - blocks up 21½¢ to \$1.60¼/lb.
 - barrels up 19¼¢ to \$1.56¼/lb.
 - butter up 14¢ to \$1.85/lb.
 - NASS powder is \$1.18/lb, down 12¢.
- ➔ Outlook: Stronger butter and cheese markets based on short-term factors. Skim solids disappearance up 3.2% in quarter ending May; butterfat up 2.6%. Production is rising.



Market Outlook

According to history and the futures markets, this summer is the dairy price peak that comes once every three years; but it is a poor peak compared to the last three, in terms of milk-feed margins. Growing milk production is holding back the price recovery: in June milk was up 2.4% from a year ago, including increases of 3.5% in California and 5.1% in Wisconsin. July's heat and the Cooperatives Working Together (CWT) program's retirement of about 34,000 cows will slow growth across the country; but the weak bottom line of so many farmers should have slowed production already. A couple of things seem to work against this:

As we've discussed before, the high grain and oilseed prices of the last few years have squeezed large, heavily capitalized feedlot dairies. Land, facilities, and livestock were the collateral for expansion loans when prices were high, or loans for getting through the last two years. That collateral has gone down in value, and now some of these farms are worth less than the bank is owed. We hear some bankers are keeping such farms milking to avoid writing off large losses on these loans: they'd rather keep the farm (and the cows) on the books at the value that they loaned on, and hope that those values come back up before they liquidate the operation. The backwards result is that the low milk, cow, and land values seem to be keeping some farms in business, instead of putting them out of business; and they may be put out of business if and when all these values go up.

The other factor, which we've discussed before, is sexed semen. Although we hear that its use is down this year along with milk and heifer values, that doesn't have any immediate effect on supply. The decision to breed a milk cow, including the choice to use sexed semen, takes over 30 months to turn into another milk cow. So today's springing heifers were conceived at the end of 2007, during the last price peak; and since heifer prices stayed high until the end of 2008, the milk supply will have the continued pressure of cheap replacements well into next spring.

We continue to watch for signals from the world market. World butterfat supplies are tight, as whole milk powder demand from China is strong; but skim prices are weaker. This is reflected in U.S. prices. In addition to herd retirements, CWT has offered assistance to 20 million lbs. of butter and anhydrous milkfat, which could further tighten U.S. butterfat markets.

With continued growth in milk production in the U.S. and abroad, the only way up is through demand growth. For that, we depend on the overall health of the economy. The good news is the economic recovery seems to be further along in some of the countries where dairy demand has been growing in recent years. The bad news is that the largest dairy demand is still in the developed countries whose recovery has been slower.

Based on futures prices, modest [Milk Income Loss Contract](#) payments are projected for March, April, June, and July of 2011 (and many other months are near having a payment) as rapidly rising corn and soybean futures have raised the projected MILC target price for all months. (See page 4.) **dmr**

The Dairy Market Report is created for Dairy Management Inc.



The Nutshell

Production v. last year:

- May Cheese ↑ 2.7%
- June Cheese ↑ 5.2%
- May Butter ↓ 6.2%
- June Butter ↓ 5.6%
- May NDM+SMP ↓ 3.2%
- June NDM+SMP ↓ 3.6%
- May Whey ↑ 0.3%
- June Whey ↓ 11.6%
- June Milk ↑ 2.4%

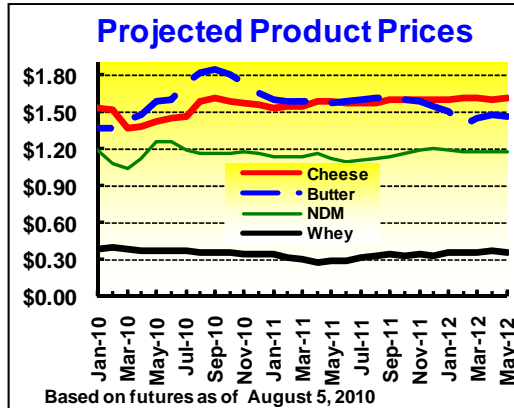
	June	July
NASS Cheddar	1.45	1.46
Whey	0.37	0.36
Butter	1.59	1.74
NDM	1.26	1.23
Milk	June	July
Cl. III	13.62	13.74
Cl. IV	15.45	15.75
All	15.50	16.00

Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 881 million lbs. in June, up 5.2% from a year ago; and up 3.6% from May (879 million), on an average daily basis. American types totaled 370 million lbs. in May, up 3.8% from last year and up 3.3% from April (370 million), on an average daily basis. Italian types were 363 million lbs., up 6.1% from last year and up 1.5% from May (369 million), on an average daily basis. Total cheese production is up 2.5% for the year to date.

cheese stocks were about 40% above their ten-year average; at the beginning of July they were

Class III futures project cheese prices to average \$1.57 over the next six months (August through January), \$1.50 for all of 2010, and \$1.58 for 2011.



U.S. cheese **exports** in May were 32 million pounds, up 72% from a year ago, and about 4% of U.S. cheese production. Imports were down 12% from a year ago to 19 million pounds. Net exports are nearly 14 million pounds, the highest figure in at least 20 years; and the U.S. has been a net cheese exporter for every month reported in 2010.

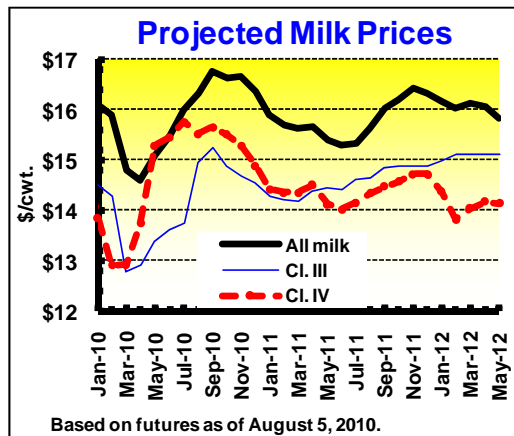
December 1 cheese stocks were 40% above their 10-year average. On July 1, they were 20% above the average.

USDA-reported **stocks** of American cheese opened July at 628 million pounds, up 4% from last year, and up 13½ million pounds from June 1. July's opening stocks of other cheese, including Swiss, were 398 million pounds, up 3% from a year ago, and down 3 million pounds from June. July 1 total cheese stocks were 1.03 billion pounds, up 4% from last year and up 10 million pounds from June 1, not much below the 10-year average stock growth of 11 mil. lbs. during June. At the beginning of December, total

about 20% above average.

Commercial disappearance of American cheese in the quarter ending with May was 1.08 billion

The **retail price** of cheddar cheese was \$4.52 in June, up 19¢ from May, but down 4¢ from a year earlier. Processed cheese averaged \$4.07 at retail in June, up 16¢ from May and up 4¢ from a year ago.



Production of dry **whey** for food was 78 million lbs. in June 2010, down 11.6% from a year ago. Production of all whey products was down 5.0%. (See table, page 4.)

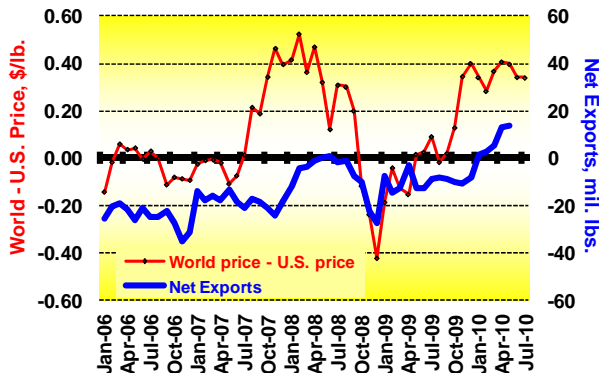
The manufacturers' **price** of whey was down a penny

pounds, up 2.2% compared to a year earlier, as reported by USDA. Other types were up 4.0% to 1.58 billion pounds. Commercial disappearance of all cheese was up 3.3%.

As of August 5, the **CME** block cheese price was up 20½¢ per pound from our last report, to \$1.60¼; the barrel price was up 19¼¢, to \$1.56¼. Class III (cheese milk) futures prices are up in near months, as cheese prices rise. (See graph, p. 1.) August 5

from our last report, at about 36¢ per lb. the week of July 31, according to NASS' survey. WPC-34 prices were little changed, still at about 95¢, 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 32¢ for 2011. The whey price in Western Europe is little changed at about 39¢ per lb. **dmr**

Cheese Prices and Trade



Butter

June U.S. [butter production](#) was 118 million lbs., down 5½% from a year ago, and down 6% from May (130 million), on an average daily basis; it is down 6.2% for the year to date. July 1 [stocks](#) were 198 million pounds, down 25% from a year ago, and down 15 million lbs. from May, compared to a 10-year average stock *increase* of 1 million pounds during June.

[Commercial disappearance](#) (including exports) of butter in the three months ending with April were 398 million pounds, up 2.4% from a year ago; all milkfat was up 2.6%.

The [retail](#) butter price was \$2.95 per

lb. in June 2010, up 2% from 2009 and up 3¢ from May. The [CME](#) butter price was up 14¢ since our last report, to \$1.85 on August 5. Futures project NASS butter at \$1.74 for the six months through January, \$1.62 for all 2010 and \$1.59 for 2011.

U.S. [net butter exports](#) in May were 11½ million lbs, compared with 23,000 lbs. a year ago. Butter prices in Western Europe are up to about \$2.25, and prices in Oceania are down to about \$1.80, 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 169 million lbs. in June, up 3.6% from a year ago, and up 1.7% from April (171 mil. lbs.) on an average daily basis. Year-to-date production is down 2.7%. June 1 manufacturers' stocks of (only) nonfat dry milk were 175 million lbs., down 13% from last year. These rose 27 million pounds in June.

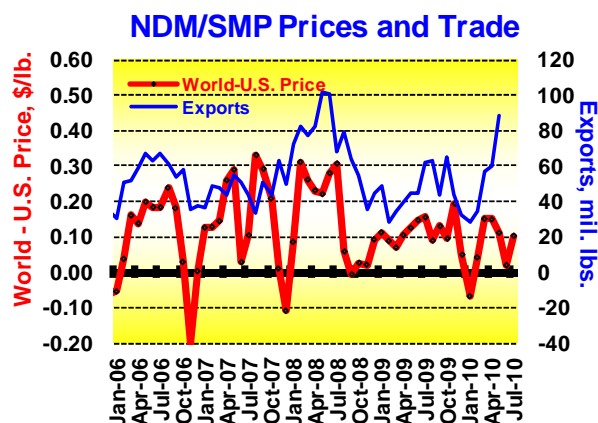
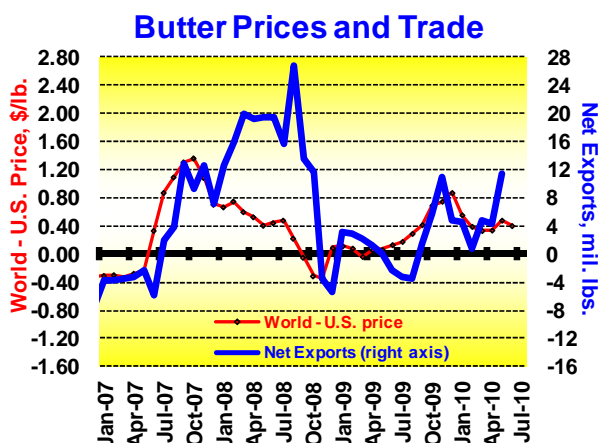
Since our last report, the [CME](#) price of extra grade nonfat dry milk was down 2¢ to \$1.22½, and

grade A was down 4¢ to \$1.21 per lb. on August 5; this compares to the average surveyed U.S. manufacturers' [price](#) of \$1.18 for the week of July 31.

In May 2010 exports of nonfat dry milk and skim milk powders were 88 million pounds, nearly double a year ago, and over half of May's U.S. output.

[USDA](#) reports skim milk powder is down to about \$1.34 in Oceania, and up to about \$1.37 in Western Europe.

[Commercial disappearance](#) of nonfat dry



milk (including exports, but excluding modified "skim milk powders") in the three months ending with April was 448 million pounds, up 21.7% from a year ago; for all skim solids, commercial disappearance was up 3.2%. **dmr**

Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in June was 352 million pounds, up 6.0% from last year, and up 7% from May (340 million lbs.), on an average daily basis; for the year to date, it is up 7.2%.

June's [ice cream production](#) was down 1% from last year to 131 million gallons, but ice cream mix production was up 2% to 75 million gallons. (In May ice cream was 120 million gallons, up 2%, and ice cream mix was 67 million gallons, also up 2%.) The total for the year to date is up 1.4%. The

[retail](#) ice cream price was \$4.53 per ½-gallon in June, up 6.6% from last year.

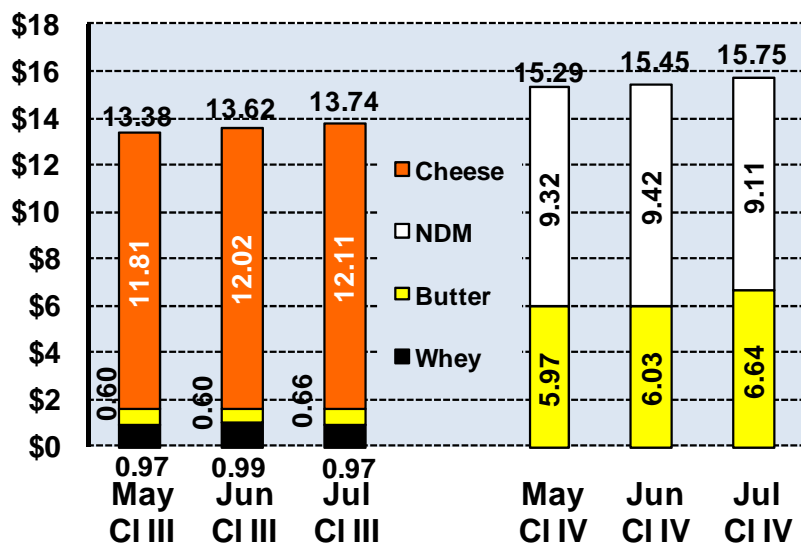
[Fluid milk sales](#) for May were down 1.6% from a year ago (calendar adjusted), when the [retail](#) price of whole milk was up 1.8%. April sales were down 2.1%, adjusted. June's retail price was \$3.30, up 10% from a year ago. **dmr**

U.S. Fluid Milk Sales

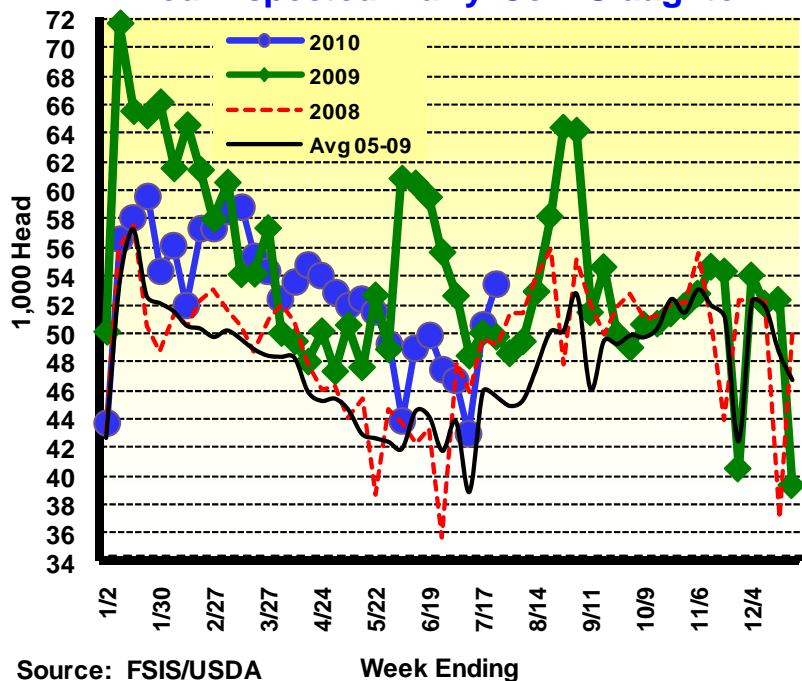
Product	April 2010		May 2010		Year to Date	
	Mil. lbs.	%	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,163	-5.5	1,156	-5.5	5,871	-5.4
Flavored Whole Milk	46	-3.2	43	-6.7	229	-4.7
Organic Whole Milk	34	16.8	34	16.5	164	8.5
Reduced Fat Milk (2%)	1,537	1.4	1,508	-0.1	7,743	1.1
Low Fat Milk (1%)	594	4.7	597	4.0	2,992	3.8
Fat-Free Milk (Skim)	674	0.0	669	-0.8	3,387	-0.5
Flavored Fat-Reduced	383	5.0	361	2.3	1,837	1.7
Organic Fat-Reduced	106	8.9	106	9.5	527	5.0
Buttermilk	38	-34.8	38	-21.4	191	-36.0
Total (including "Other")	4,580	-0.2	4,519	-0.9	22,979	-0.9
Total (calendar adjusted)	4,525	-1.6	4,579	-0.7	22,991	-1.1

Source: USDA/AMS, Dairy Market News

Class Price Breakdown



Fed Inspected Dairy Cow Slaughter



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	16.47	16.94	0.2115
May	17.05	16.94	0.0000
June	18.53	16.94	0.0000
July	18.91	16.94	0.0000
August	19.02	17.38	0.0000
September	18.95	17.35	0.0000
FY 2011			
October '10	19.01	17.55	0.0000
November	18.91	17.55	0.0000
December	18.71	17.56	0.0000
January '11	18.33	17.73	0.0000
February	17.86	17.73	0.0000
March	17.72	17.73	0.0040
April	17.71	17.82	0.0498
May	17.82	17.82	0.0000
June	17.77	17.91	0.0615
July	17.76	17.91	0.0659
August	17.91	17.84	0.0000
September	18.00	17.82	0.0000
FY 2012			
October '11	18.18	17.76	0.0000
November	18.23	17.76	0.0000
December	18.23	17.76	0.0000
January '12	18.23	17.91	0.0000
February	18.31	17.91	0.0000
March	18.44	17.91	0.0000
April	18.47	18.01	0.0000
May	18.47	18.01	0.0000
June	18.47	18.09	0.0000
July	18.80	18.09	0.0000
August	18.88	17.91	0.0000
September		16.94	

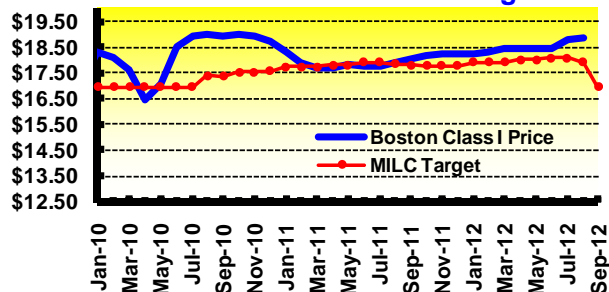
Projections based on futures as of 8/5/2010

Whey Products

Product	May		June		June 1 Maker		July 1 Maker	
	Mil. lbs.	Change v 2009	Mil. lbs.	Change v 2009	Mil. lbs.	Change v 2009	Mil. lbs.	Change v 2009
Whey, food	83.5	0.3	78.1	-11.6	48.1	12.7	42.1	-13.6
Whey, feed	6.0	58.7	7.7	76.8	5.7	331.0	6.6	323.5
WPC25-50	20.5	-9.9	20.3	-10.7	21.1	-5.6	20.2	-10.1
WPC50-91	15.4	28.9	14.0	18.2	16.8	3.6	16.1	8.8
WPI90+	4.9	23.8	5.1	10.5	9.6	-15.6	9.5	-16.1
Total	130.4	3.6%	125.2	-5.0%	101.3	7.9%	94.5	-4.4%

Source: USDA/NASS

Boston Cl. I Price & MILC Target



MILC target adjusted for feed costs, per 2008 Farm Bill; projected from futures prices as of 8/5/2010.

Milk and Feed

U.S. milking herd in June was 1.2% smaller than a year ago. However, milk per cow was up 3.7%, so June [milk production](#) was 16.32 billion lbs., **up 2.4%** from a year ago. The herd grew for the sixth straight month: a total of 40,000 cows added since January. Weekly slaughter is already beginning to rise (see graph, p. 4) as the Cooperative Working Together (CWT) program carries out the retirement of 34,000 milking cows.: this is about 0.4% of the milking herd.

The July 1 cattle inventory shows heifer numbers to be 12½% higher than 7 years ago, but cow numbers unchanged. This is the highest heifer to cow ratio (44.5%) since the Dairy Termination Program in 1985. These heifer numbers have been boosted by the combination of the introduction of sexed semen and the high milk and cow prices of two years ago.

USDA continues to raise its forecast for 2010 milk production, and now [projects](#) milk production to be up 1.0% for all of 2010. We project production will be up 1.5%, even after the impact of the current round of CWT herd retirements, which will reduce production in the second half by about 0.3%.

July's [Class III](#) price was announced at \$13.74, up 12¢ from June's \$13.62, and up \$3.77 from last year. August is projected at \$14.90. Class III [futures](#) prices for the next six

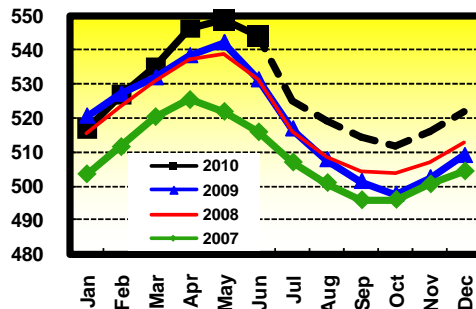
months (August through January) averaged \$14.76 per hundredweight on August 5, and they project averages of \$14.13 for 2010 and \$14.55 for 2011. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The July [Class IV price](#) was \$15.75, up 30¢ from June's \$15.45, and **up \$5.60 from last year**. Despite rising butter prices, this is projected to be the peak, and August is projected down to near \$15.50, with lower powder values. [Futures](#) markets project Class IV milk to average about \$15.20 for the next six months, \$14.70 for 2010, and \$14.40 for 2011. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

July component prices were: \$1.8964 per lb. (up 17¢ from June's \$1.7234) for butterfat in Class III, Class IV, and producer milk; \$2.0515 (down 15¢ from \$2.2040) for protein in Class III and producer milk; \$1.0493 (down 3½¢ from \$1.0843) for total nonfat solids in Class IV milk; and \$0.1700 (down a ha'penny from \$0.1748) for other solids in Class III and producer milk.

The Class II price was \$17.10 in July, up \$1.09 from June's \$16.01. This is the minimum price for pooled milk used to make soft dairy products and in most food processing.

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



August is projected at about \$16.85.

August's [Class I](#) base price is \$15.77, again the highest in nearly two years and up 11¢ from July, 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](#).

July's [all-milk price](#) is \$16.00, up 50¢ from June. August is projected at about \$16.30. The futures markets project the all-milk price to average \$16.40 for the next 6 months, \$15.90 in 2010 overall and \$15.80 in 2011.

Feed costs: corn and soy are up: near month [corn](#) and [soy](#) futures are \$4.00 (up 55¢ since our last report) and \$10.53 (up 98¢) per bushel on August 4. Futures markets project annual averages for corn at about \$3.75 in 2010 and \$4.25 in 2011, and for soybeans at about \$9.70 in 2010 and \$10.00 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.