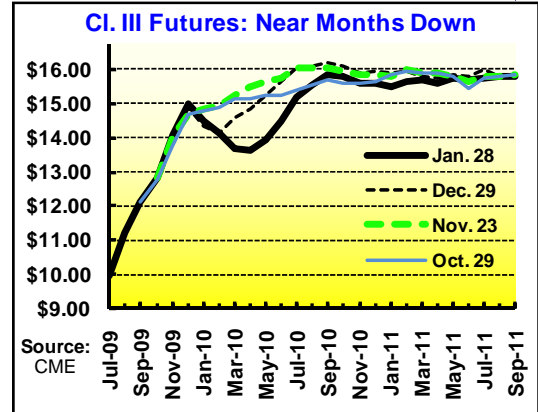




# Dairy Market Report

## Executive Summary

- ➔ Cheese, butter prices down from our last report:
  - blocks up 6½¢ to \$1.50½/lb., as of Jan. 29<sup>th</sup>
  - barrels up 7½¢ to \$1.51½/lb.
  - butter little changes at \$1.33/lb.
- ➔ Commercial disappearance of milkfat down 1.9% from year ago in three mos. ending Nov.; skim solids unchanged.
- ➔ Outlook: Modest demand growth and resilient production are dampening the market outlook. Droughts in New Zealand could reverse this.



## Market Outlook

Dairy prices dipped in January as the holiday buying season wound down. U.S. milk production was down again compared to a year ago, but again by less than 1%. Dairy farmers are proving relatively resilient. Milk-feed price margins were ruinous in 2009 and are expected to be only middling in 2010; but production is lagging very modestly. Dairy farmers grow about 40% of their feed, not counting pasture; with pasture, they probably produce over half of their cows' nutritional needs. This means that the average dairyman only faces half the feed cost crunch in short-term cash flow.

On the demand side, the recent weakness in the market may reflect the downside of the normal inventory cycle more than a change in fundamentals. That is, for several months commercial users of dairy products have been stocking up in fear of continued price run-ups. Now they have seen cracks in dairy prices (such as the plunging [California manufacturers' powder price](#), which fell nearly 25¢ in a week, on a very large volume of sales); as a result they are beginning to work off their inventories, expecting lower prices down the road.

A few more weeks of drought in parts of New Zealand could lead to large reductions in that nation's 2010 production and move world and U.S. prices back up.

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	17.55	16.94	0.0000
April	17.09	16.94	0.0000
May	16.97	16.94	0.0000
June	17.21	17.06	0.0000
July	17.72	17.06	0.0000
August	18.41	17.15	0.0000
September	18.84	17.14	0.0000
FY 2011			
October '10	19.15	17.25	0.0000
November	19.18	17.25	0.0000
December	19.01	17.25	0.0000
January '11	18.97	17.41	0.0000
February	18.91	17.42	0.0000
March	18.99	17.42	0.0000
April	19.07	17.52	0.0000
May	19.01	17.52	0.0000
June	19.09	17.60	0.0000
July	19.09	17.60	0.0000
August	19.12	17.57	0.0000
September	19.18	17.57	0.0000

Projections based on futures as of 1/28/2010



### The Nutshell

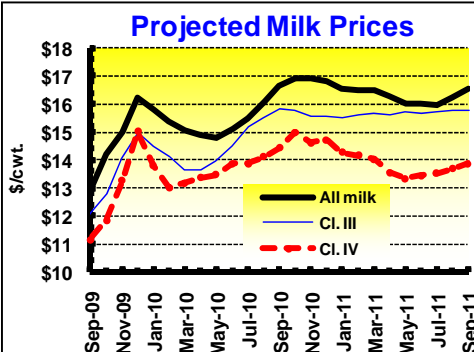
#### Production v. last year:

- Nov. Cheese    ↑ 1.9%
- Nov. Butter    ↓ 9.7%
- Nov. NDM+SMP ↓ 20.3%
- Nov. Whey      ↓ 0.9%
- December Milk ↓ 0.9%

#### Prices:

NASS	Nov.	Dec.
Cheddar	1.52	1.60
Whey	0.35	0.37
Butter	1.38	1.45
NDM	1.11	1.29
Milk	Nov.	Dec.
Cl. III	14.08	14.98
Cl. IV	13.25	15.01
All	15.30	16.50

January all-milk : \$16.50



Based on futures as of January 28, 2009.

### The USDA

issued nearly all the payments under the "Dairy Economic Loss Assistance Payment Program" (DELAP) before the end of 2009, just over two months after the law was signed that provided \$290 million to be divided among U.S. producers. The [Milk Income Loss Contract](#) payment rate is projected to be zero from December 2009 through September 2012, based on current futures prices. However, a weakening dairy market outlook has brought the projected Boston Class I price within 3¢ of the target price. **dmr**

### Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 844 million lbs. in November, up 1.9% from a year ago; up 1.2% from October on an average daily basis. American types totaled 332 million lbs. in November, down 1.8% from last year and down 1.1% from October, on an average daily basis. Italian types were 363 million lbs., up 6.5% from last year and up 4.0% from October on an average daily basis. For the year to date, cheese production is up 1.9%.

USDA-reported **stocks** of American cheese opened January at 587 million pounds, up 9% from last year, and up 4 million pounds from December 1. January's opening stocks of other cheese, including Swiss, were 380 million pounds, up 21% from a year ago, and up 1½ million pounds from December. Cheese stocks, especially of "other" cheese have been trending up for over a decade. (See graph, below.) January 1 total cheese stocks were 967 million pounds, up 13% from last year and up 5 million pounds from December 1, about a fifth of the 10-year average stock growth of 26 mil. lbs. during December.

**Commercial disappearance** for American cheese was 1.04 billion pounds in the three months ending with November, down 1.2% from a year ago. Disappearance of other cheese was up 3.8% to

1.63 billion pounds, and total cheese was up 1.8%.

As of January 29, the **CME** block cheese price was up 6½¢ per pound from our last report, to \$1.51½; the barrel price was up 7½¢, to \$1.50½.

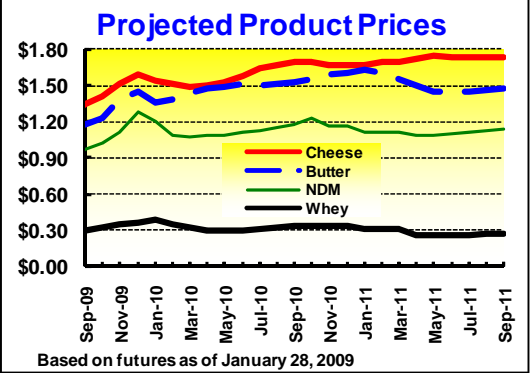
Class III (cheese milk) futures prices have fallen substantially in near months and less in out months. (See graph, p. 1.)

January 28 futures project cheese prices to average \$1.55 over the next six months (February through July), \$1.60 for all of 2010, and \$1.72 for 2010.

U.S. **cheese exports** in November were 21 million pounds, down 13% from a year ago, but still 2.5% of U.S. cheese production. Imports were down 21% from a year ago to 32 million pounds. Net imports were 11 million lbs, down 50% from a year ago.

The **retail price** of cheddar cheese was \$4.45 in December (down 8% from last year). Processed cheese averaged \$3.86 at retail in December, down 7% from a year ago.

**Production** of dry **whey** for food was 82 million lbs. in November 2009,



down 1% from a year ago. Production of all whey products was up 0.4%. (See box.)

The manufacturers' **price** of whey was up to 39¢ per lb. the week of January 23, according to NASS' survey. WPC-34 prices are also up, to about 93¢, per USDA's **Dairy Market News**. The **CME** dry whey futures project average whey prices of 31¢ for the next 6 months, 33¢ for all of 2010, and 28¢ for 2010. The whey price is up to about 48¢ per lb. in Western Europe. **djr**

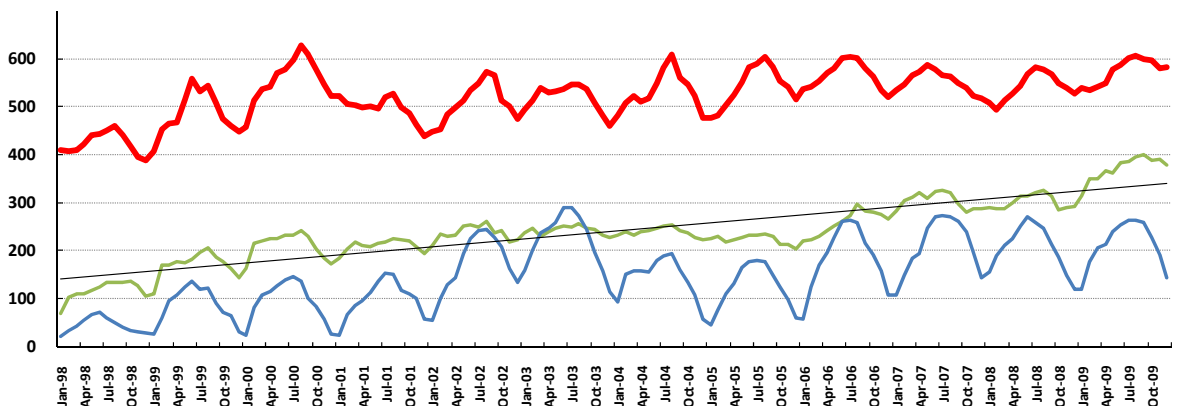
#### Whey Products

Product	November Production		December 1 Maker Stocks	
	Mil. lbs.	Change v 2008	Mil. lbs.	Change v 2008
Whey, food	81.9	-0.9	42.6	-29.9
Whey, feed	4.1	8.2	1.9	-60.2
WPC25-51	20.1	-10.1	23.3	12.3
WPC50-91	14.3	25.4	13.1	8.5
WPI90+	4.6	6.9	n/a	n/a
<b>Total</b>	<b>125.0</b>	<b>0.4%</b>	<b>80.8</b>	<b>-17.7%</b>

*"Cheese stocks, especially of other than American styles, have been trending up for over a decade."*

**United States Butter and Cheese Stocks (Million Lbs.) 1998-2009**

American Cheese  
Other Cheese  
Butter



Data Source: USDA/NASS

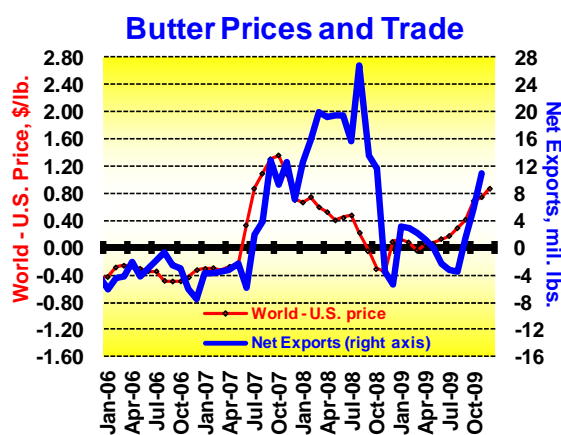
## Butter

November U.S. [butter production](#) was 121 million lbs., down 10% from a year ago, but up 10½% from October on an average daily basis. Year-to-date production is down 4.7%. January 1 [stocks](#) were 134 million pounds, up 12% from a year ago and down 9 million lbs. from December, compared with the 10-year average drawdown of only 200,000 lbs.

[Commercial disappearance](#) for butter (including exports) in the quarter ending with November was 433 million lbs., down 12% from a year ago; disappearance of all milkfat was down 1.9%.

The [retail](#) butter price was \$2.67 per lb. in December 2009, up 6¢ from last month and down 15% from 2008. The [CME](#) butter price was up only a quarter penny since our last report to \$1.33 on January 29, but peaked at \$1.52½ in between. Futures project NASS butter at \$1.47 for the six months through July, \$1.50 for all 2010 and \$1.50 also for 2011.

U.S. [net butter exports](#) in November were 11 million lbs., the largest figure over a year. World butter prices are down, but still higher than U.S. prices: butter is about \$1.88 in Europe, and about \$1.70 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 120 million lbs. in November, down 20% from a year ago. December 1 manufacturers' stocks of (only) nonfat dry milk were 114 million lbs., down 40% from last year, and up 24 million pounds from November 1.

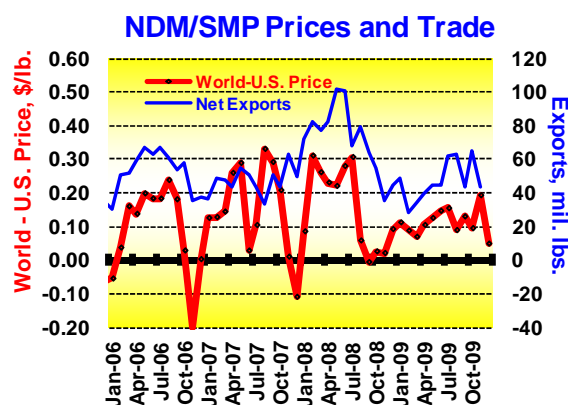
Since our last report, the [CME](#) price of extra grade nonfat dry milk was down 16¢ to \$1.24 per lb., and grade A was down 21¢ to \$1.19, on January 29; this compares to the average surveyed U.S. manufacturers' [price](#) of \$1.09 for the week of January 23. The

NASS price fell by nearly 20¢, as Western manufacturers emptied their warehouses.

In November 2009 exports of nonfat dry milk and skim milk powders were 44 million pounds. This is up 24% from last November's total, and over a third of U.S. powder production.

These exports continue without subsidy, as U.S. prices are falling to remain competitive with world prices. Skim milk powder is about \$1.34 in Oceania and about \$1.28 Western Europe, according to [USDA](#).

[Commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified "skim milk powders") was



259 million lbs. in the three months ending November, up 3% 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 November was up 8% from last year, to 263 million lbs; year-to-date was up 7%.

November's reported [ice cream production](#) was down 7% from a year ago, to 79 million gallons, and down 1% for the year to date. Ice cream mix production was 44 million gallons, down 15% from a year ago, and down 1% for the

year to date.

The [retail](#) ice cream price was \$4.23 per ½-gallon in December, 1% lower than last year.

[Fluid milk sales](#) for November were up 0.9% from a year ago (calendar-adjusted), when the [retail](#) price of whole milk was down 19%. December's retail price was \$3.105, down 16% from a year ago. **dmr**

### U.S. Fluid Milk Sales

Product	November 2009		2009 to date	
	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,187	-3.0	13,662	-0.9
Flavored Whole Milk	50	2.3	530	-2.7
Organic Whole Milk	31	3.4	338	-1.4
Reduced Fat Milk (2%)	1,549	2.9	16,992	1.8
Low Fat Milk (1%)	585	6.1	6,293	3.0
Fat-Free Milk (Skim)	662	-0.4	7,435	-0.5
Flavored Fat-Reduced	348	6.6	3,544	3.4
Organic Fat-Reduced	104	4.5	1,127	-2.3
Buttermilk	47	6.7	545	12.5
<b>Total (including "Other")</b>	<b>4,616</b>	<b>1.5</b>	<b>50,612</b>	<b>0.9</b>
<b>Total (calendar adjusted)</b>	<b>4,693</b>	<b>0.9</b>	<b>50,623</b>	<b>1.1</b>

Source: USDA/AMS, Dairy Market News

## Milk and Feed

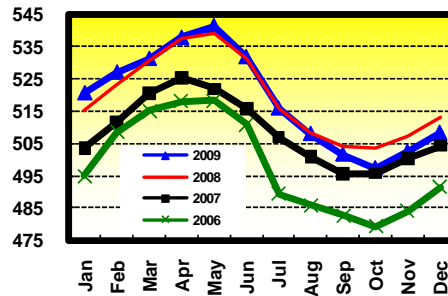
U.S. [milk production](#) in December was 15.8 billion lbs., down 0.9% from a year ago. Milk per cow was up 1.9% as feed prices eased, but the herd was 252,000 cows (2.7%) smaller than a year ago, thanks in large part to CWT [re-movals](#). **This is the largest year-over-year reduction in cows in at least 20 years.** Production fell 0.4% for the entire year, or just over 0.1% after adjusting for leap day 2008. USDA projects milk production to be down another 0.4% in 2010.

December's [Class III](#) price was announced at \$14.98, up 90¢ from November, but down 30¢ from last year. January is projected at \$14.50, which would be the first decline since May. Class III [futures](#) prices for the next six months (February through July) averaged \$14.18 per hundredweight on January 28, and they project averages of \$14.82 for 2010 and \$15.72 for 2011. The Class III price is the minimum price paid for cheese milk

pooled on Federal orders.

The December [Class IV price](#) was \$15.01, up \$1.76 from November,

U.S. Milk Production, 2006-2009  
Million Lbs./Day



and up \$4.66 from last year. January is projected at \$13.80. [Futures](#) markets project Class IV milk to average about \$13.46 for the next six months, \$13.95 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.

December component prices were: \$1.5433 per lb. (up 8¢ from November) for butterfat in Class III, Class IV, and producer milk; \$2.8751 (up 18¢) for protein in Class III and producer milk; \$1.1068 (up 17¢) for total non-fat solids in Class IV milk; and \$0.1727 (up 2¢) for other solids in Class III and producer milk.

The Class II price was up \$1.01 in December, to \$14.25. This is the minimum price for pooled milk used to make soft dairy products and in most

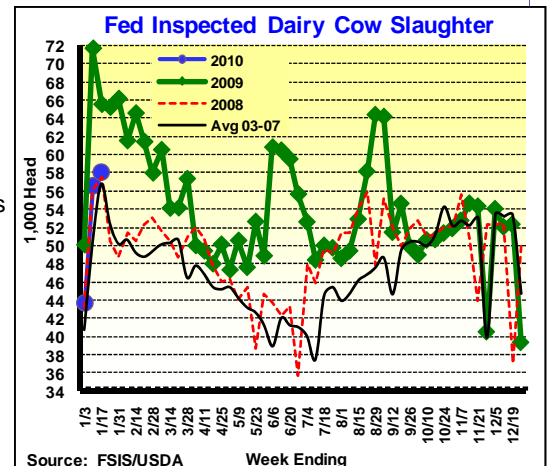
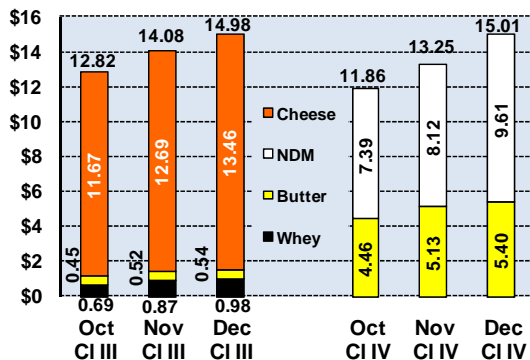
food processing. January is projected at \$15.15.

February's [Class I](#) base price was announced at \$14.84, down 19¢, based on falling butter prices. This is the first decline in this price since August. 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](#).

January's [all-milk price](#) was \$16.50, unchanged from December. The futures markets project the all-milk price to average \$15.90 in 2010 and \$16.40 in 2011.

**Feed costs:** corn and soy are down: near month [corn](#) and [soy](#) futures are \$3.56 (down 60¢ since our last report) and \$9.14 (down \$1.24) per bushel on January 29. Futures markets project 2010 averages for corn at \$3.80 (\$4.12 in 2011) and soybeans at \$9.37 (\$9.42 in 2011) as of January 28. These are all down substantially from last month. **dmr**

Class Price Breakdown



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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®.



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