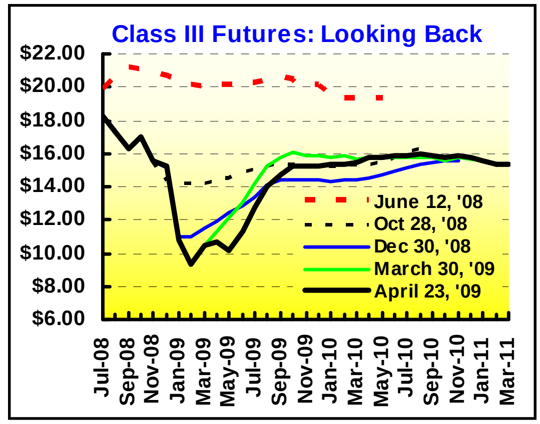
April 2009
National Milk Producers Federation
Volume 12, Number 4

Dairy Market Report

Executive Summary

- Commercial disappearance (including exports) in December though February: skim solids down 3.4%, milk fat down 2.2%.
- Cheese prices down, butter prices up from our last report—as of April 29th:
  blocks were down 13¾¢ to $1.15¼/lb.,
  barrels were down 20½¢ to $1.09¼;
  butter was up 5¢ to $1.23/lb.
- Outlook: *Futures show "optimism" that many cows will stop milking by fall. CWT is expected to speed that process.*



Market Outlook

Current prices have dipped, but futures prices have retained some strength several months out and beyond. This makes it cheaper to hedge summer and fall dairy prices by buying and storing dairy products than by using the futures markets; so dairy product users are hedging by putting products in their warehouses. This buying has helped keep prices above government support levels; however, the resulting inventories don't show up in USDA numbers.

Bullish expectations in the futures markets reflect optimism that supply will come into closer balance with decreased demand. This rests largely on the anticipated producer supply response, to be assisted by the most recently announced round of herd buyout by the Cooperatives Working Together program. The dairy farmer-funded program announced its next herd retirement, with farmer bids due by May 1. Producers are encouraged to consult a bid calculator on the website (www.cwt.coop) to estimate per hundredweight bids that will cover the difference between the market value and slaughter value of their cows. With 67 percent of U.S. farmer milk marketings signed up through the end of 2010 at 10¢ per cwt., CWT has considerable resources to carry out their programs, most of which will be focused on correcting the supply-demand imbalance in 2009, through one or more rounds of herd retirements. This is a truly unprecedented producer self-help program for a major farm commodity, and has only been made possible by dairy farmers' long tradition of cooperative organization and action. We note again, producers can already take advantage of CWT-driven optimism by pricing their fall milk through the futures market.

The Milk Income Loss Contract payment for May will be at least $1.224 per cwt., and may be higher if May feed costs are higher than now projected. USDA software glitches delayed some payments this month, but should not do so in the future. With falling futures, we now project an average MILC payment rate of $1.36 per cwt. for the 7 months ending with August. (See table.) **dmr**

MILC Payment Rates and Projections

Year	Boston Class I Actual	Boston Class I Target	Payment Rate
FY 2009			
October '08	18.78	18.48	0.0000
November	20.58	18.10	0.0000
December	18.68	17.76	0.0000
January '09	18.99	17.98	0.0000
February	13.97	17.33	1.5135
March	12.68	*17.23*	*2.0487*
April	13.61	*16.94*	*1.4985*
May	*14.22*	*16.94*	*1.2240*
June	*13.68*	*16.94*	*1.4692*
July	*14.02*	*16.94*	*1.3132*
August	*15.26*	*16.94*	*0.7551*
September	*16.64*	*16.94*	*0.1334*
FY 2010			
October '09	*17.54*	*17.03*	*0.0000*
November	*18.15*	*17.03*	*0.0000*
December	*18.27*	*17.04*	*0.0000*
January '10	*18.27*	*17.23*	*0.0000*
February	*18.36*	*17.23*	*0.0000*
March	*18.43*	*17.23*	*0.0000*
April	*18.58*	*17.36*	*0.0000*
May	*18.79*	*17.36*	*0.0000*
June	*18.83*	*17.48*	*0.0000*
July	*19.08*	*17.48*	*0.0000*
August	*19.57*	*17.41*	*0.0000*
September	*20.09*	*17.40*	*0.0000*

Projections based on futures as of 4/28/2009

The Dairy Market Report is created for Dairy Management Inc.

The Nutshell

Daily Production v. last year:

- Feb. Cheese ⬆ 1.4%
- Feb. Butter ⬆ 2.6%
- Feb. NDM+SMP 0.0%
- Feb. Whey ⬇ 3.7%
- Mar. Milk ⬇ 0.3%

NASS	Feb.	Mar.
Ched-	1.15	1.26
Whey	0.16	0.17
Butter	1.08	1.13
NDM	0.82	0.82
Milk	**Feb.**	**Mar.**
Cl. III	9.31	10.44
Cl. IV	9.45	9.64
All	11.60	11.50

Cheese and Whey

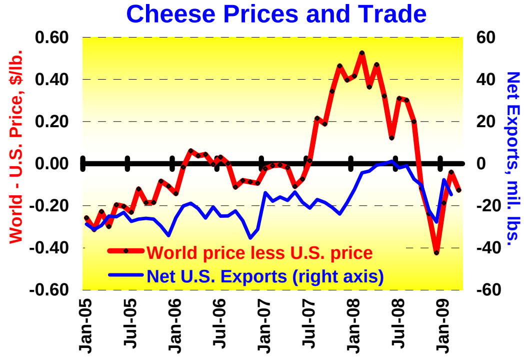
Projected fall Class III prices remain well above current levels.

Total U.S. **cheese** production (excluding cottage cheese) was 769 million lbs. in February, up 1.4% from a year ago on an average daily basis; average daily production was up 8.4% from January. American types totaled 319 million lbs. in February, up 3.6% from last year and nearly unchanged from January, on an average daily basis. Italian types were 320 million lbs., down 1.0% from last year and down 1.9% from January on an average daily basis.

Natural American cheese stocks were 562 million lbs. as April began, up 7% from a year ago, and up 2 million pounds from March's beginning stocks. Stock of other cheese, including Italian and Swiss, began April at 331 million lbs., up 11% from a year ago, and up 16 million pounds from March 1. Total cheese stocks are up 8% from a year ago, and up 17 million pounds from March 1.

For the three months ending February 2009, commercial disappearance of American cheese was 1.02 billion lbs., up 2.1% from a year ago on an average daily basis; other cheese was 1.48 billion lbs., down 3.2% from last year.

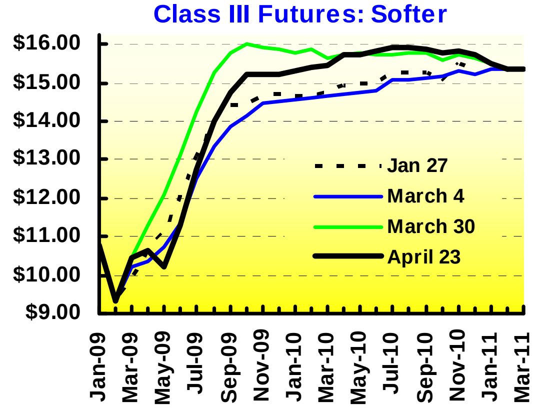
Cheese Prices and Trade



The total was down 1.1%.

As of April 29, the CME block cheese prices was down 13¾¢ from our last report, to $1.15¼; the barrel price was down 20½¢, to $1.09¼, respectively. Class III futures prices have softened, although projected fall prices remain well above current prices. (See graph; see page 4.)

Class III Futures: Softer

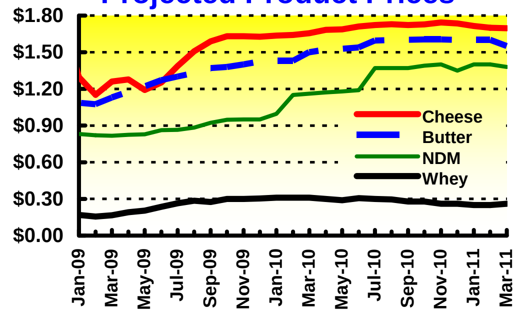


April 23 futures project cheese prices to average $1.46 over the next six months (May through October), $1.42 for all of 2009, and $1.72 for 2010.

U.S. cheese exports in February were 18½ million pounds, down 22% from a year ago, and equal to 2.4% of U.S. production. Imports were up 18% from a year ago to 33 million pounds. Net imports were 15 million lbs, up 242% from a year ago; this is approaching recent historical averages.

The retail price of cheddar cheese was $4.76 in March (up 4% from last year). Processed cheese averaged $3.88½ at retail in March, down 3% from a year ago.

Projected Product Prices



Based on futures as of April 28, 2009

Production of dry **whey** for food was 78 million lbs. in February 2008, down 4% from a year ago on an average daily basis. Average daily production of all whey products was down 2%. (See box for unadjusted figures.)

The manufacturers' price of whey was 20¢ per lb. the week of April 18, according to NASS' survey. WPC-34 prices remain near 55¢, per USDA's *Dairy Market News*. The CME dry whey futures project average whey prices of 24¢ for the next 6 months, and 24¢ for all of 2009. The international whey price is still about 24¢ per lb. **dmr**

Whey Products

Product	February Production		March 1 Maker Stocks	
	Mil. lbs.	Change v 2007	Mil. lbs.	Change v 2008
Whey, food	77.9	-7.1	54.2	-4.2
Whey, feed	4.8	14.5	2.5	11.3
WPC25-50	20.1	-8.0	19.7	-9.4
WPC50-90	11.0	-4.0	14.9	29.3
WPI90+	3.7	28.4	n/a	n/a
Total	*117.5*	*-5.4%*	*91.3*	*-0.9%*

Butter

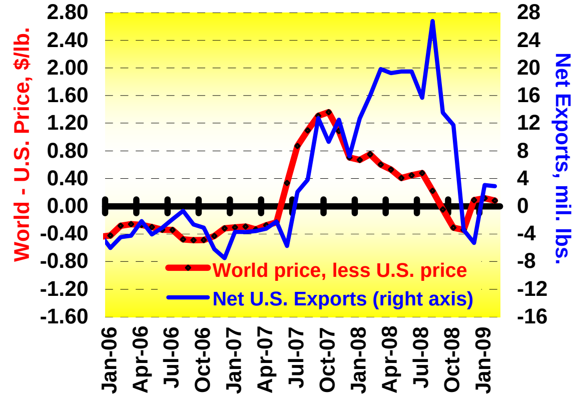
February U.S. butter production was 145 million lbs., up 2.6% from a year ago and up 8% from January, on an average daily basis. April 1 stocks were 215 million lbs., 4% less than a year ago, but up 10 million lbs. from March 1.

Commercial disappearance (including exports) of butter in the three months ending with February was 400 million lbs., up 2.7% from a year ago, on an average daily basis. Disappearance of all milkfat was down 1.1% for the same three months.

The retail butter price was $2.91 per lb. in March 2009, down 2% from 2008. The CME butter price was up 5¢ to $1.23 on April 29. Futures project NASS butter at $1.30 for the six months through October, $1.25 for all 2009, and $1.54 for 2010.

The U.S. was a net butter exporter in February of 2.9 million lbs. Butter exports will remain low, given large European stocks and low prices in Oceania (about 82¢ per lb., according to USDA's international report, compared to European prices up to about $1.27). **dmr**

Butter Prices and Trade



Dry Milk Powders

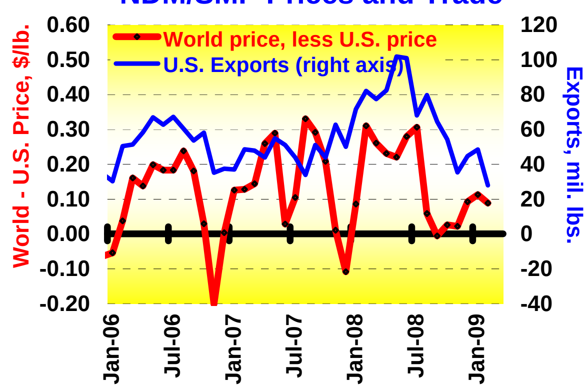
U.S. nonfat dry milk production, including protein-standardized "skim milk powders" was 146 million lbs. in February, down ½% from a year ago, on an average daily basis. March 1 manufacturers' stocks of (only) nonfat dry milk were 189 million lbs., up 18½% from last year, and down 15 million pounds from February 1.

Since our last report, the CME price of grade A nonfat dry milk was up 2¢ to 86½¢ per lb., and extra grade remains unchanged at 85¢ on April 24; this is again about 3¢ above the average surveyed U.S. manufacturers' price for the week of April 18. USDA has purchased nearly 230 million pounds of nonfat dry milk under the price support program, although these purchases are slowing.

In February 2008 exports of nonfat dry milk and skim milk powders were 28 million pounds, down 66% from last February's total. We expect further declines in 2009, as the government remains a more attractive outlet for most manufacturers at current international prices.

Overall U.S. commercial disappearance of nonfat dry milk (including exports, but excluding modified "skim milk powders") in the three months ending February was 338 million lbs., up 5.6% from a year ago on an average daily basis, according to USDA. For the same quarter, average daily commercial disappearance of all skim solids was down 2.3%. **dmr**

NDM/SMP Prices and Trade



Yogurt, Ice Cream, and Fluid Milk

U.S. yogurt production in February was up 4½% from last year on an average daily basis, to 302 million lbs.

February reported ice cream production was down 1% from a year ago (on an average daily basis) to 90 million gallons. Ice cream mix production was 51 million gallons, up 1%, on an average daily basis.

The retail ice cream price was $4.16½ per ½-gallon in March, up 2% from last year.

February fluid milk sales were up 2.1% from a year ago (calendar-adjusted), when the retail price of whole milk was down 14%, to $3.32. March's retail price was $3.12, down 18% from a year ago. **dmr**

U.S. Fluid Milk Sales

	February		2009 to date	
Product	**Mil. lbs.**	**%**	**Mil. lbs.**	**%**
Whole Milk	1,165	-4.5	2,482	-2.8
Flavored Whole Milk	46	-5.0	93	-4.5
Organic Whole Milk	29	-2.5	60	-2.5
Reduced Fat Milk (2%)	1,440	-1.2	3,071	1.1
Low Fat Milk (1%)	540	-1.5	1,145	1.4
Fat-Free Milk (Skim)	642	-3.9	1,360	-1.2
Flavored Fat-Reduced	350	2.5	709	0.5
Organic Fat-Reduced	98	-15.0	202	-10.0
Buttermilk	55	16.2	129	27.2
Total (including "Other")	**4,375**	**-2.5**	**9,269**	**-0.5**
Total (calendar adjusted)	**4,375**	**2.1**	**9,199**	**1.1**

Source: USDA/AMS, Dairy Market News

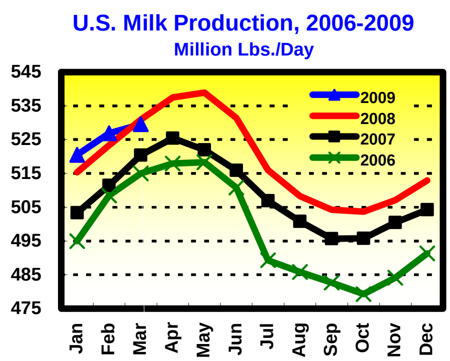
Milk and Feed

U.S. [milk production](#) in March was 16.4 billion lbs., down 0.3% from a year ago. This is the first year-over-year decline in average daily production since June 2004. Milk per cow was down 0.2%. The herd was 8,000 cows (0.1%) smaller than a year ago. USDA now projects a decline in average daily production of 0.9% in 2009; this estimate now includes some consideration of the announced herd reduction by CWT. (See page 1.)

March's Class III price was announced at $10.44 per hundredweight, up $1.13 from February, and down $7.56 from a year ago. Class III futures prices for the next six months (May through October) averaged $12.67 per hundredweight on April 28, and they project averages of $12.26 for 2009 and $15.58 for 2010. April is projected at about $10.75. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

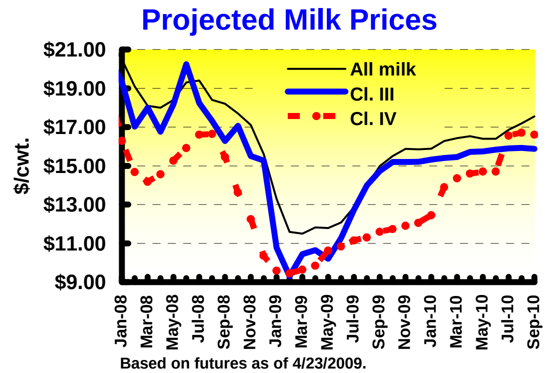
The March Class IV price was $9.64, up 19¢ from March, and down $4.53 from a year ago. Futures markets project Class IV milk to average about $11.21 for the next six months, $10.81 for 2009, and $15.35 for 2010. April is projected at about $9.80. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

March component prices were: $1.1594 per lb. (up 6½¢ from February) for butterfat in Class III, Class IV, and producer milk; $2.1973 (up 28¢ from February) for protein in Class III and producer milk; $0.6423 (down a half-penny) for total nonfat solids in Class IV milk; and *negative* $0.0339 (up a penny) for other solids in Class III and producer milk. April butterfat is projected at $1.22.



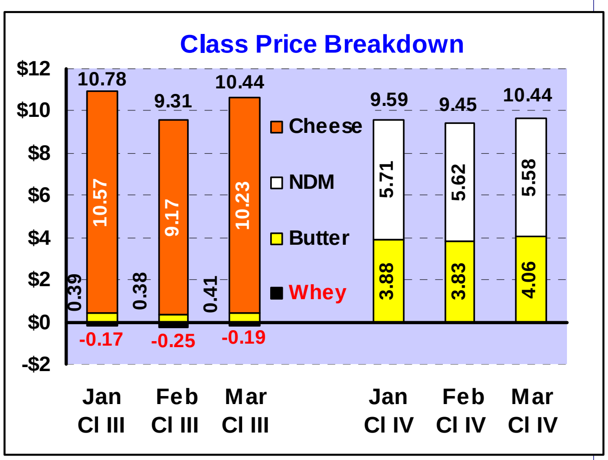
March's Class II price was up 11¢ per hundredweight, to $10.36. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. May is projected at about $10.50.

May's Class I base price is $10.97, based on butter and powder values. This is up 61¢ from April. 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 was $11.50, the lowest all-milk price since September 2003. April is projected to be up to $11.80. The futures markets project the all-milk price to average $13.40 in 2009 (a month ago, they projected $14.00) and $16.90 in 2010. The markets continue to be optimistic about a recovery this fall.

Anticipated ***feed costs*** for 2009 remain high: near month corn and soy futures are $3.75 and $9.89 per bushel, respectively. We project alfalfa prices to average between $130 and $140 per ton in 2009. **dmr**



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