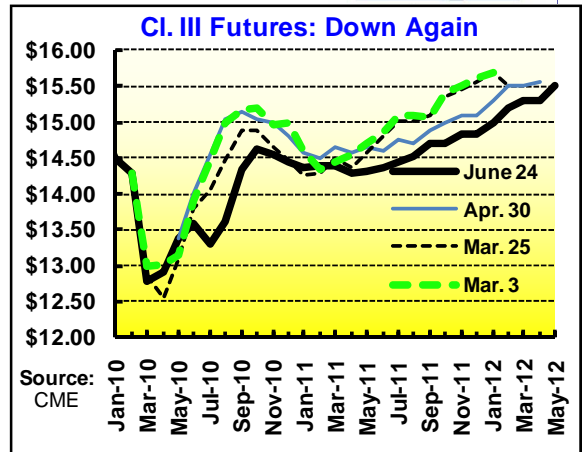




Dairy Market Report

Executive Summary

- ➔ Cheese prices mixed, butter price up, since our last report, as of June 24th:
 - blocks up a penny to \$1.39³/₄/lb.
 - barrels down a penny to \$1.37/lb.
 - butter up 9¢ to \$1.71/lb.
 - NASS powder is \$1.31/lb, up 13¢.
- ➔ Outlook: Stronger butter and powder markets, gyrating cheese, as markets await autumn. Skim solids disappearance up 1.8% in first quarter; butterfat up 1.5%. Production rising.



Market Outlook

Cheese prices have softened, but butter and powder prices are rising, as dairy markets enter an uncertain summer limbo, waiting to see what happens around the world.

U.S. producers have proven resilient, with still-unrealized growth potential; but this potential is taking new directions in the new high-feed-cost environment. Growth has returned in the West, but has been greatest in the Midwest. Sexed semen is changing the nature of growth in ways we've discussed before. Whether this growth accelerates or plateaus over the rest of 2010 and into 2011 is uncertain. The Cooperatives Working Together (CWT) program has invited bids on another herd retirement this summer; cows should begin to leave the herd under this program in July, but the number that will be retired remains to be seen.

Although U.S. demand has been steady, it is part of a larger world market, and U.S. prices track world prices more than ever before. In response to high cheese stocks, CWT has also assisted the export of 38.5 million pounds of cheese since March 18. Partly as a result, U.S. spring stocks of cheese are growing more slowly than usual, and American cheese stocks were about even with the 10-year trend for June 1. On the other hand, other-than-American cheeses, which are not historically a driver of prices, were still 9% above the June trend.

New Zealand's agriculture ministry is projecting unusually large growth of 14% for 2010/2011; but this seems to some analysts like a stretch goal, rather than a realistic forecast. European milk production is slowly recovering, and the European Union's intervention stocks of skim milk powder hang ominously over the market, as the EU continues to entertain, then reject, bids for sell-back.

Chinese dairy imports have been strong. Even if they are not primarily from the U.S., they have boosted U.S. prices through their effect on world prices. However, China's demand can, on occasion, be turned on and off through government action; this, together with their desire to prod consumer demand for domestic milk after the melamine scandals, casts additional uncertainty on international markets. Uncertainty about the recovery of the world economy means additional uncertainty about global consumer demand for dairy products.

Cheese prices have been up and down and, as we expected, have not fully reflected the rising butter and powder values. The latter have shown what one analyst calls an uncertainty premium, as users buy dairy ingredients to hedge against large potential price risk.

The upshot is that a lot of market factors are up in the air right now, and prices could move in either direction (relative to current futures values) as the summer and fall wear on.

*Futures markets project the Milk Income Loss Contract payments at zero through June 2012, and probably through the end of the current Farm Bill in September 2012, despite rather narrow projected milk-feed margins in late 2011 and early 2012. (See page 4.) **dmr***

The Dairy Market Report is created for Dairy Management Inc.



The Nutshell

Production v. last year:

- March Cheese ↑ 2.4%
- April Cheese ↑ 1.8%
- March Butter ↓ 5.8%
- April Butter ↓ 2.5%
- Mar. NDM+SMP ↑ 2.0%
- Apr. NDM+SMP ↑ 0.4%
- March Whey ↑ 9.7%
- April Whey ↑ 7.7%
- April Milk ↑ 1.6%
- May Milk ↑ 1.1%

Prices:

	Apr.	May
NASS Cheddar	1.38	1.43
Whey	0.36	0.36
Butter	1.48	1.58
NDM	1.12	1.25
Milk	Apr.	May
CI. III	12.92	13.38
CI. IV	13.73	15.29
All	14.60	15.00

Cheese and Whey

Total U.S. **cheese production** (excluding cottage cheese) was 863 million lbs. in April, up 1.8% from a year ago; and unchanged from March (892 million), on an average daily basis. American types totaled 360 million lbs. in April, up 1.5% from last year and up 2.7% from March (362 million), on an average daily basis. Italian types were 366 million lbs., up 5.9% from last year and down 0.5% from March (381 million), on an average daily basis. Total cheese production is up 1.8% for the year to date.

ending with March was 1.02 billion pounds, down 2.9% compared to a year earlier, as reported by USDA. Other types were up 5.7% to 1.52 billion pounds. Commercial disappearance of all cheese was up 2.1%.

futures project cheese prices to average \$1.68 over the next six months (July through December), \$1.57 for all of 2010, and \$1.54 for 2011.

U.S. cheese **exports** in April 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. As a result, the U.S. was a net cheese exporter in March for the fourth month in a row, with net exports at nearly 13 million pounds, the highest figure in at least 20 years.

U.S. was a net cheese exporter in April for fourth month in a row.

USDA-reported **stocks** of American cheese opened June at 617 million pounds, up 5% from last year, and up 8 million pounds from May 1. June's opening stocks of other cheese, including Swiss, were 401 million pounds, up 4½% from a year ago, and up 3 million pounds from May. June 1 total cheese stocks were 1.02 billion pounds, up 5% from last year and up 10 million pounds from May 1, this is only about 40% of the 10-year average stock growth of 26 mil. lbs. during May.

As of June 24, the **CME** block cheese price was up 1¢ per pound from our last report, to \$1.39¼; the barrel price was down 1¢, to

The **retail price** of cheddar cheese was \$4.71 in May (up 2% from a year earlier) and \$4.65 in April (down 2% from last April). Processed cheese averaged \$3.91 at retail in May (about even with a year ago) and \$3.94 in April (up 4%).

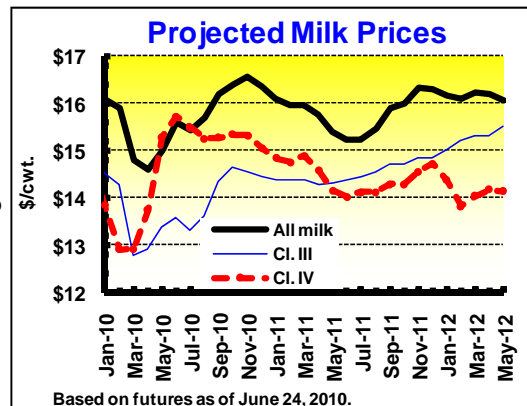
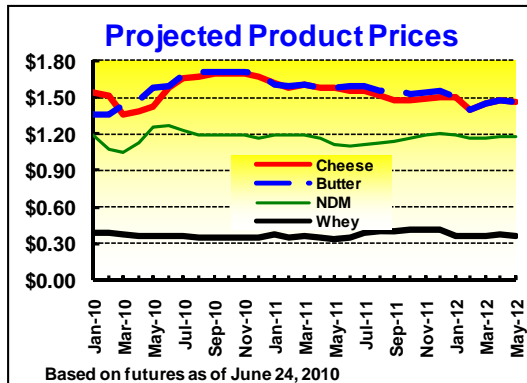
Production of dry **whey** for food was 86 million lbs. in April 2010, up 8% from a year ago. Production of all whey products was up 9.2%. (See table, page 4.)

Commercial disappearance of American cheese in the quarter

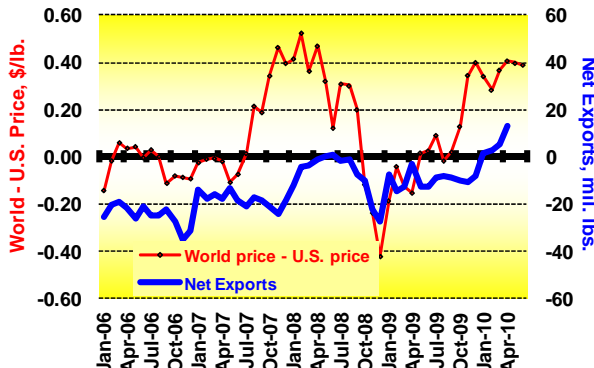
\$1.37. Class III (cheese milk) futures prices have fallen in all months. (See graph, p. 1.)

The manufacturers' **price** of whey was up a couple pennies from our last report, at about 37¢ per lb. the week of June 19, according to NASS' survey. WPC-34 prices were also up a little, to 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 38¢ for 2011. The whey price is down considerably to about 39¢ per lb. in Western Europe. **dmr**

Trading of cash-settled cheese futures began June 21 on the CME. There are now futures contracts available on the CME for all four component products of the Federal order Class prices; it will be seen if the cheese contract will compete with, or complement, the Class III (cheese milk) contract. In the meantime, June 24 Class III



Cheese Prices and Trade



Butter

April U.S. [butter production](#) was 139 million lbs., down 2½% from a year ago, but up 3% from March (139 million), on an average daily basis; it is down 5.4% for the year to date. June 1 [stocks](#) were 211 million pounds, down 16% from a year ago, and up 5 million lbs. from April, about four fifths of the 10-year average stock increase during May. (April's stock increase was 10 mil. lbs., about a fifth of the 10-year average increase of 25 mil. lbs.)

[Commercial disappearance](#) (including exports) of butter in the three months ending with March were 385 million pounds, up 3% from a year ago; all milkfat was up 1.5%.

Dry Milk Powders

As reported by USDA, U.S. [nonfat dry milk production](#), including protein-standardized "skim milk powders" was 167 million lbs. in April, up ½% from a year ago, and up 4.4% from March (165 mil. lbs.) on an average daily basis. Year-to-date production is down 4%. May 1 manufacturers' stocks of (only) nonfat dry milk were 144 million lbs., down 20% from last year. These fell 3 million pounds in April and 4 million in March.

Since our last report, the [CME](#)

The [retail](#) butter price was \$2.92 per lb. in May 2010, up 5% from 2009 and up 7¢ from \$2.85 in April. The [CME](#) butter price was up 9¢ since our last report, to \$1.71 on June 24. Futures project NASS butter at \$1.70 for the six months through December, \$1.59 for all 2010 and \$1.57 for 2011.

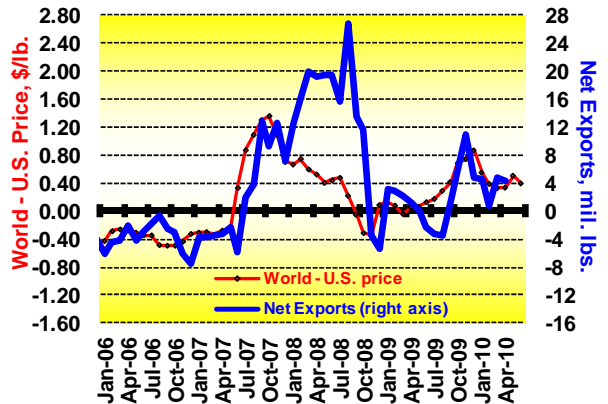
U.S. [net butter exports](#) in April were 4.3 million lbs, compared with 1.3 million lbs. a year ago. World butter prices are up, and still higher than U.S. prices: butter is about \$2.00 in Europe, and about \$1.84 in Oceania, according to USDA's [international](#) report **dmr**

price of extra grade nonfat dry milk was down a half cent to \$1.24½ and grade A was down 4¼¢ to \$1.25 per lb., on June 24; this compares to the average surveyed U.S. manufacturers' [price](#) of \$1.31 for the week of June 19.

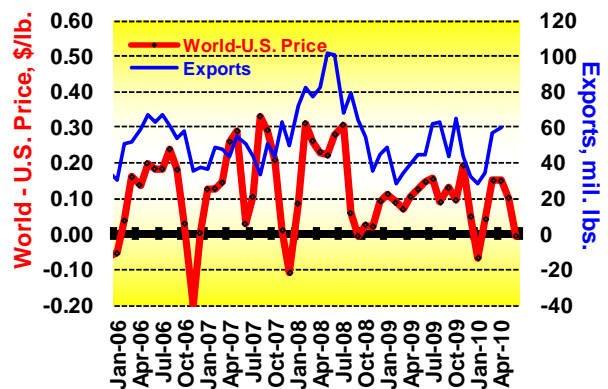
In April 2010 exports of nonfat dry milk and skim milk powders were 60 million pounds, up 51% from last April's total, and over a third of April's U.S. output.

Skim milk powder was last reported by [USDA](#) down to about \$1.47 in Oceania,

Butter Prices and Trade



NDM/SMP Prices and Trade



and about \$1.30 in Western Europe.

[Commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified "skim milk powders") in the three months ending with March was 369 million pounds, up 11% 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 April was 333 million pounds, up 6.8% from last year, but down 14% from March (400 million lbs.), on an average daily basis; for the year to date, it is up 8.6%.

April's [ice cream production](#) was up 2½% to 118.4 million gallons, and ice cream mix production was up 2% to 67 million gallons, from a year ago. (March ice cream was 118.7 million gallons, up 5%; March ice cream mix was 66 million gallons, up 4%.) The total for the year to date is up 1.7%. The

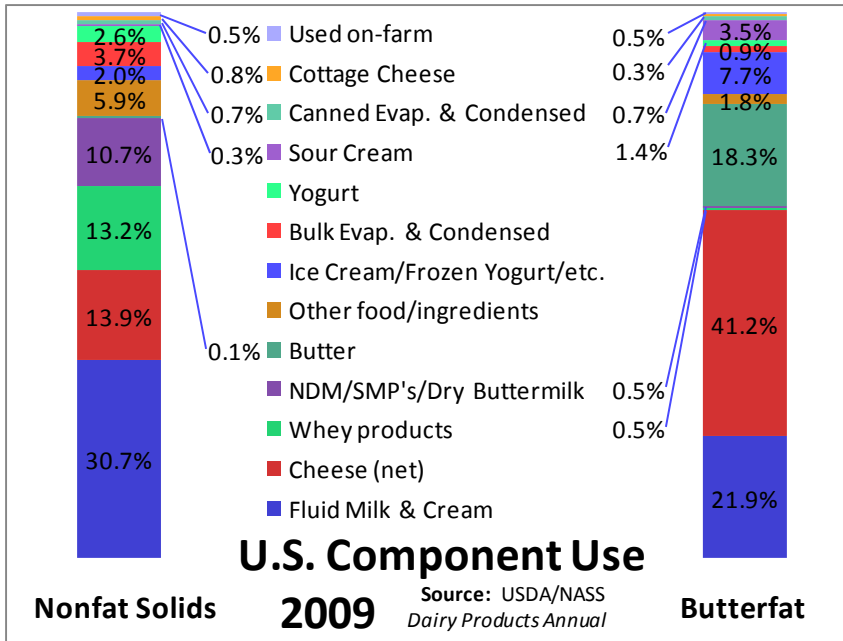
[retail](#) ice cream price was \$4.56 per ½-gallon in May, up 6.6% from last year. (April's retail price was \$4.45, up 1.8%.)

[Fluid milk sales](#) for April were down 1.6% from a year ago (calendar adjusted), when the [retail](#) price of whole milk was up 1.8%. March sales were down 2.1%, adjusted. May's retail price was \$3.18, up 3.5% from a year ago. **dmr**

U.S. Fluid Milk Sales

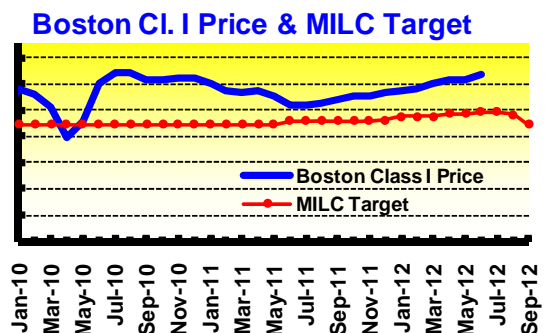
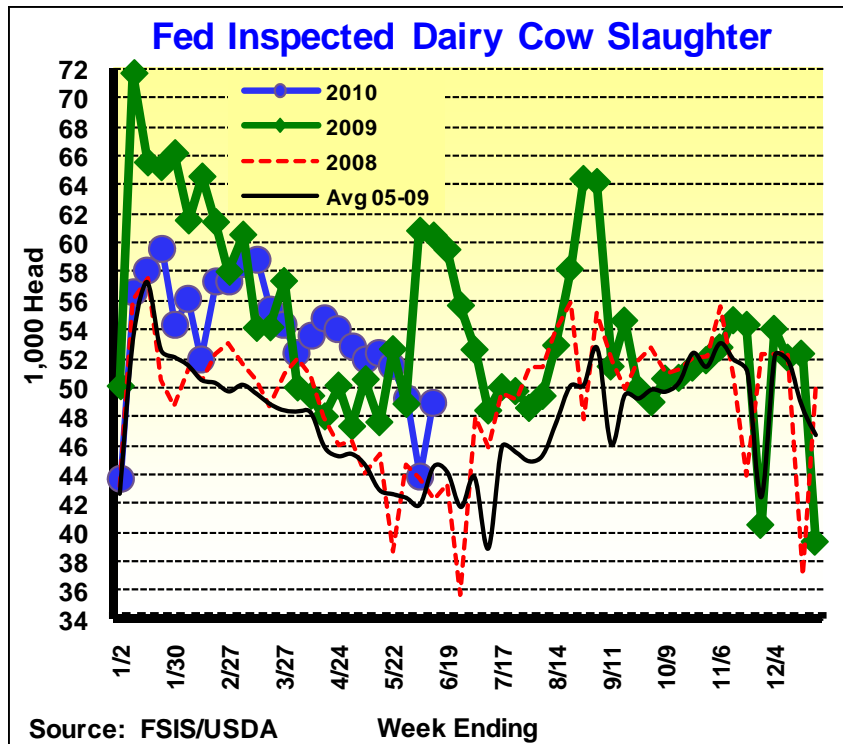
Product	March 2010		April 2010		Year to Date	
	Mil. lbs.	%	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,211	-5.1	1,163	-5.5	4,734	-5.0
Flavored Whole Milk	55	-0.6	46	-3.2	187	-4.1
Organic Whole Milk	34	3.5	34	16.8	130	5.0
Reduced Fat Milk (2%)	1,608	2.4	1,537	1.4	6,256	1.7
Low Fat Milk (1%)	622	4.2	594	4.7	2,400	4.0
Fat-Free Milk (Skim)	703	0.9	674	0.0	2,724	-0.2
Flavored Fat-Reduced	389	2.2	383	5.0	1,477	1.6
Organic Fat-Reduced	114	3.6	106	8.9	421	3.9
Buttermilk	41	-36.2	38	-34.8	155	-38.5
Total (including "Other")	4,786	-0.1	4,580	-0.2	18,513	-0.7
Total (calendar adjusted)	4,741	-2.1	4,525	-1.6	18,465	-0.9

Source: USDA/AMS, Dairy Market News



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	18.92	16.94	0.0000
September	18.68	16.94	0.0000
FY 2011			
October '10	18.64	16.94	0.0000
November	18.70	16.94	0.0000
December	18.70	16.94	0.0000
January '11	18.48	16.94	0.0000
February	18.25	16.94	0.0000
March	18.14	16.94	0.0000
April	18.22	16.96	0.0000
May	18.00	16.96	0.0000
June	17.66	17.10	0.0000
July	17.71	17.10	0.0000
August	17.77	17.10	0.0000
September	17.86	17.09	0.0000
FY 2012			
October '11	18.02	17.10	0.0000
November	18.06	17.10	0.0000
December	18.17	17.11	0.0000
January '12	18.20	17.25	0.0000
February	18.33	17.25	0.0000
March	18.53	17.25	0.0000
April	18.66	17.36	0.0000
May	18.68	17.36	0.0000
June	18.84	17.44	0.0000
July		17.44	
August		17.34	
September		16.94	

Projections based on futures as of 6/24/2010



MILC target adjusted for feed costs, per 2008 Farm Bill; projected from futures prices as of 6/24/2010.

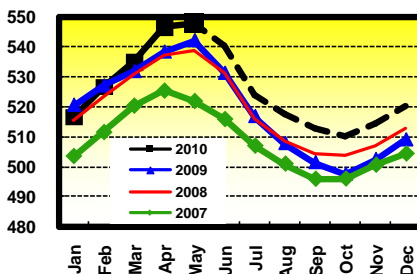
Product	Whey Products							
	March Production		April Production		April 1 Maker Stocks		May 1 Maker Stocks	
	Mil. lbs.	Change v 2009	Mil. lbs.	Change v 2009	Mil. lbs.	Change v 2009	Mil. lbs.	Change v 2009
Whey, food	87.0	9.7	85.6	7.7	47.3	10.3	50.4	22.2
Whey, feed	5.5	59.8	5.2	39.7	3.3	77.2	2.3	108.6
WPC25-50	21.2	-6.2	20.0	-5.4	24.4	14.0	22.5	9.0
WPC50-91	15.2	20.3	15.8	32.8	13.9	-11.1	15.5	-3.6
WPI90+	4.3	-7.1	4.6	17.9	10.5	23.5	9.7	-10.2
Total	133.2	8.6%	131.1	9.2%	99.3	10.1%	100.3	11.7%

Source: USDA/NASS

Milk and Feed

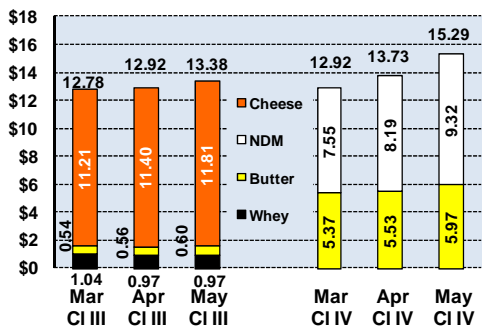
U.S. [milk production](#) in April was 16.98 billion lbs., **up 1.1%** from a year ago. Milk per cow was up 3%, which more than offset the (largely CWT-driven) herd reduction of 171,000 cows (1.8%) since a year ago. The herd was up for the fifth straight month: a total of 21,000 cows added since December. Weekly slaughter has dropped in recent weeks; it is below last year's CWT-boosted numbers. It

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



to be up 0.6% for all of 2010. We project production up 1.5% before considering the impact of the recently announced round of CWT herd retirements. (See also page 1.)

Class Price Breakdown



remains above the five-year average, but as we've noted before, more culls are necessary to balance the growing number of dairy replacements. On January 1 there were 1% more milking cows in the U.S. than there were 6 years earlier, but there were 12% more dairy replacement heifers, at least partly as the result of the use of sexed semen.

Cooperatives Working Together has announced a new round of herd retirements. Bids were due June 25, and cows should begin to leave the milking herd in July.

USDA now [projects](#) milk production

to be up 0.6% for all of 2010. We project production up 1.5% before considering the impact of the recently announced round of CWT herd retirements. (See also page 1.)

May's [Class III](#) price was announced at \$13.38, up 46¢ from April, and up \$3.54 from last year. June is projected at \$13.65. Class III [futures](#) prices for the next six months (July through December) averaged \$14.15 per hundredweight on June 24, and they project averages of \$13.85 for 2010 and \$14.50 for 2011. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

The May [Class IV price](#) was \$15.29, up \$1.56 from April, and **up \$5.15 from last year**. June is projected at near \$15.80, as butter and powder values rise. [Futures](#) markets project Class IV milk to average about \$15.30 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.

May component prices were: \$1.7058 per lb. (up 12¢ from April)

The Class II price was up \$1.12 in May, to \$14.90. This is the minimum price for pooled milk used to make soft dairy products and in most food processing. June is projected at \$15.30.

July's [Class I](#) base price is \$15.66, the highest in nearly two years and up 38¢ from June, which was \$15.28, up \$1.48 from May. Both these increases were 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](#).

May's [all-milk price](#) is \$15.00, up 40¢ from April. June is projected at near \$15.60. The futures markets project the all-milk price to average \$16.10 for the next 6 months, \$15.70 in 2010 and \$15.80 in 2011.

Feed costs: corn and soy are down: near month [corn](#) and [soy](#) futures are \$3.45 (down 21¢ since our last report) and \$9.55 (down 34¢) per bushel on June 24. Futures markets project 2010 averages for corn at about \$3.50 (\$3.90 in 2011) and soybeans at about \$9.30 in 2010 and \$9.20 in 2011. **Jmr**

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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.