

## Dairy Market Update, September 2009

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The last Dairy Market Update was on August 25, 2009. At that time (8/24/09) CME cheese traded at \$1.3900/lb. (blocks) and \$1.3800/lb. (barrels). Since then blocks and barrels are mixed (Figure 1), closing Tues (9/29/09) at \$1.4125/lb (blocks) and \$1.3600/lb (barrels). Since late Aug Class III futures (at right, Fig. 1, and Table 1) are mixed. As of Tues (9/29/09), close-up months (Sep-Dec '09) were **-\$0.94** to **+\$0.37** and further out months (Jan '09-Dec '10) were **-\$0.36** to **+\$0.25**. In late Aug butter traded at \$1.1700/lb (8/24/09) and closed Tues (9/29/09) up to \$1.2500/lb.

### Change in Class III Futures Prices

Contract Month	Change vs Last Report <sup>1</sup>	Contract Month	Change vs Last Report <sup>1</sup>
Sep	<b>(\$0.94)</b>	May '10	<b>(\$0.05)</b>
Oct	<b>(\$0.80)</b>	Jun '10	<b>(\$0.29)</b>
Nov	<b>\$0.07</b>	Jul '10	<b>(\$0.36)</b>
Dec	<b>\$0.37</b>	Aug '10	<b>(\$0.30)</b>
Jan '10	<b>\$0.17</b>	Sep '10	<b>(\$0.29)</b>
Feb '10	<b>\$0.25</b>	Oct '10	<b>(\$0.06)</b>
Mar '10	<b>\$0.25</b>	Nov '10	<b>\$0.04</b>
Apr '10	<b>(\$0.21)</b>	Dec '10	<b>(\$0.17)</b>

<sup>1</sup>Last report: 8/24/09.

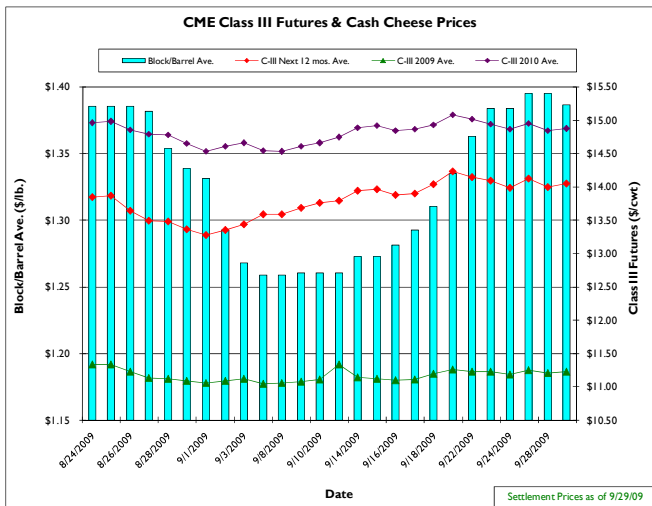


Figure 1: Chicago Mercantile Exchange Class III Futures and Cash Cheese Prices.

August's Class III price increased (+\$1.23) vs. Jul (\$9.97) to close at \$11.20, and Aug's Class IV price finished higher (+\$0.23) than Jul (\$10.15) at \$10.38 (Figure 2). August's Class III price was lower (**-\$6.12**) than Aug 2008 (\$17.32), and lower (**-\$2.49**) than the 1995-2009 Aug average (\$13.69)(see Table 2). The Aug Class IV price was lower (**-\$6.26**) than Aug 2008 (\$16.64) and lower (**-\$2.91**) than the 1995-2009 Aug average (\$13.29)(see Table 3). The Jan-Jun 2009 USDA MI mailbox price was \$11.84, down substantially (**-\$6.68**) vs. Jan-Jun 2008 (\$18.52).

**Do you know your current cost of production?**

### SUPPLY, DEMAND, INVENTORIES

**Milk Production:** Nationally, Aug milk production was down vs. Aug 2008 by slightly by 0.3% (Fig. 3), and down 0.2% in the Top 23 States. August milk output was below trend increase (trend 1995-2008 is +1.7%) for the 11<sup>th</sup> consecutive month. Production in key western states was down in Aug vs. Aug 2008: CA (-4.5%), AZ (-7.4%), ID (-2.7%), NM (-1.1%), and WA (-3.1%). August milk production in Midwest/Eastern dairy states was up vs. Aug 2008: WI (+3.7%), MN (+4.4%), PA (+0.7%), and NY (+0.2%).

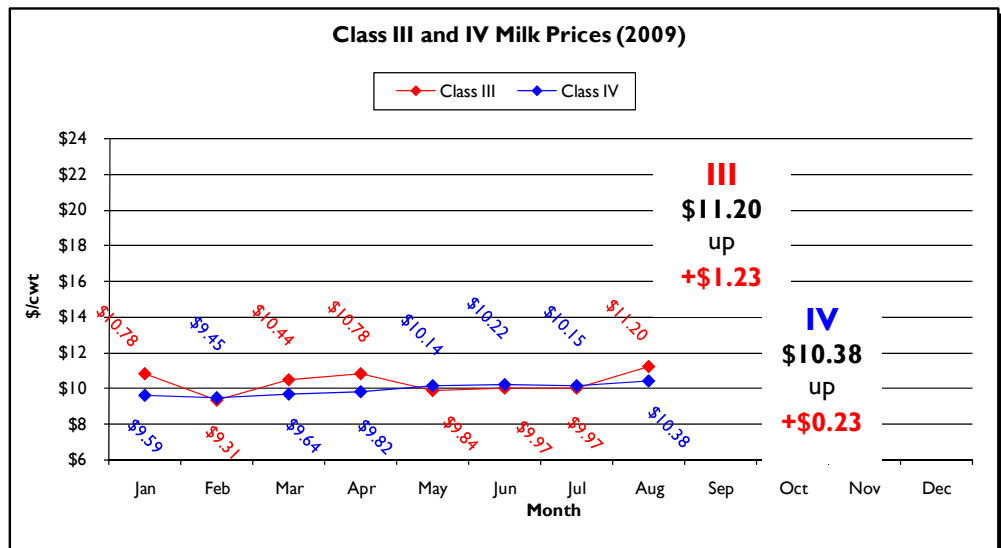


Figure 2: Class III and Class IV Milk Prices (2009).

August milk production in Michigan was up vs. Aug 2008 (+4.6%).

Cow numbers declined nationally Jul→Aug by 30,000 hd and Top 23 states cow numbers in Aug were down 143,000 vs. Aug 2008. Nationally cow numbers in Aug stood at 9,160,000 down 171,000 vs. Aug 2008. But, cow numbers were +164,000 vs. the last time cow numbers dipped below 9.0 million (Feb 2005). In Aug Top 23 States cow numbers were up, or even, in only 4 of the states vs. Aug 2008. August cow numbers in Michigan were at 357,000, up 5,000 vs. Aug 2008. Cow numbers in key western states (i.e., AZ, CA, ID, NM, and WA) are now 111,000 below last year. In Aug cow numbers in the Top 23 States east of the Mississippi River were down vs. Aug 2008 (-14,000 hd).

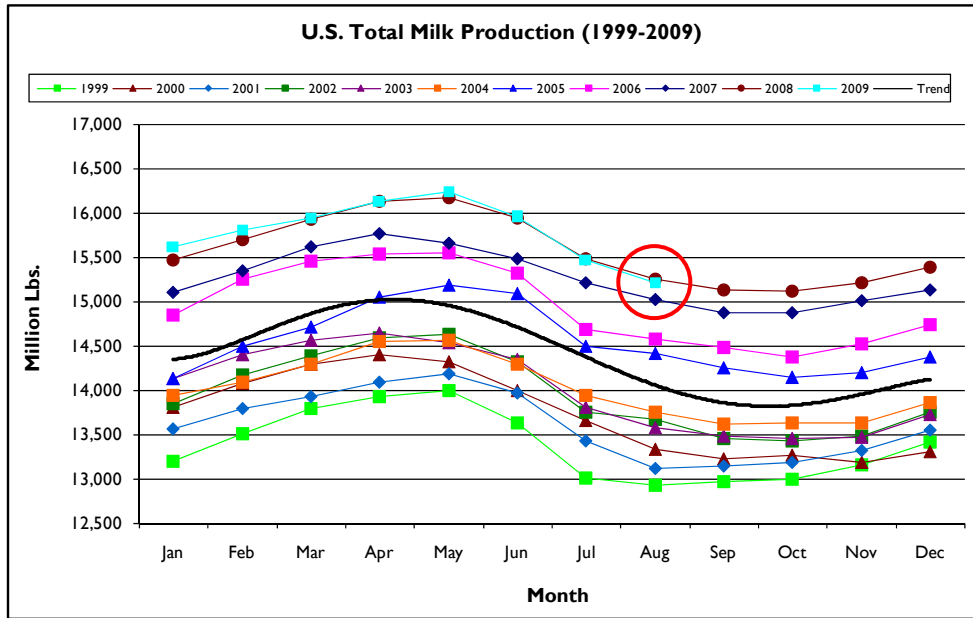


Figure 3: Total U.S. Milk Production (1999-2009).

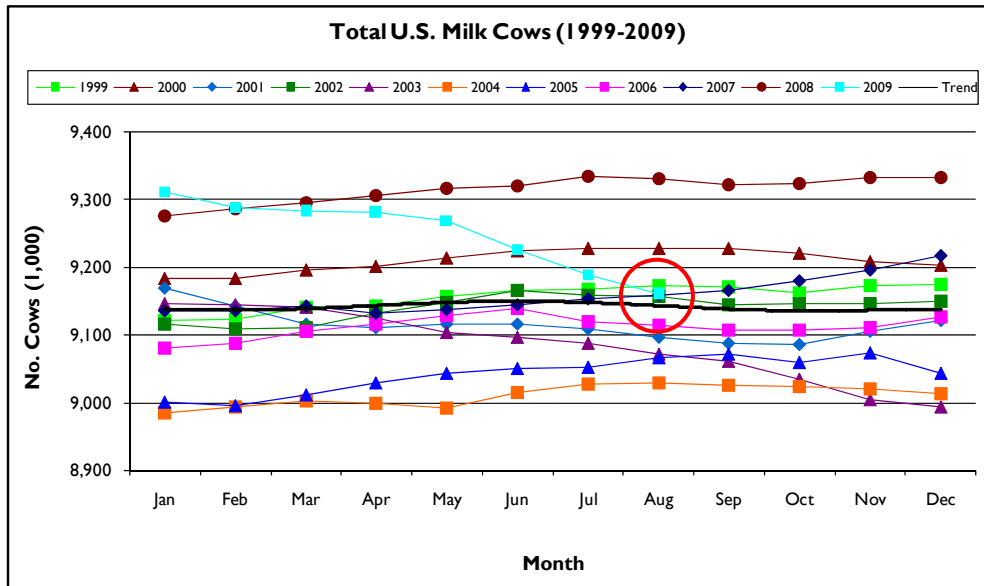
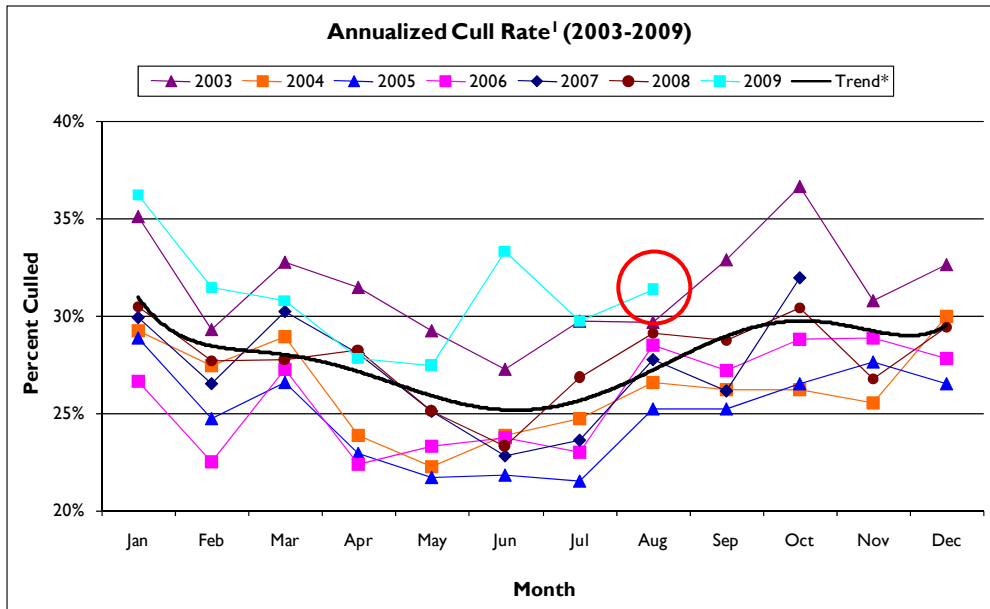


Figure 4: Dairy Cows Numbers in the U.S. (1999-2009).

Nationally cull cow prices in Aug fell 18.9% below last year's level (\$57.60/cwt, 8/2008 vs. \$46.70/cwt, 8/2009). The USDA's Jul report also showed a major decline nationally in milk cow prices from Jul 2008 to Jul 2009 (\$1,280/hd down from \$1,980/hd, *USDA Dairy Market News*, 8/7/09). The same USDA report showed a \$750/hd decrease in MI dairy cow prices for Jul 2008 vs. Jul 2009 (\$2,200/hd vs. \$1,450/hd). The most recent (8/24/09) *Dairy Profit Weekly*

reports top prices for springers and/or fresh cows mostly below \$1,500 with the highest top for bred heifers at \$1,600 and with some tops on fresh cows/springers still below \$1,000. The Jul 2009 USDA Cattle Report indicated milk cow replacements (>500 lbs.) were estimated even with Jul 2008 at 3.9 M head.

August's USDA dairy cow slaughter figures showed the cull rate above the long term trend for the eleventh time in the past thirteen months (Figure 5). Number of cows slaughtered (federally inspected plants) in Aug was +12,600 hd vs. Aug 2008. Slaughter numbers are up sharply in early 2009 as a result of rounds #6, #7, and #8 of the CWT herd retirement program and the depressed dairy economy. As of 9/5/09; 247,400 more dairy cows had been slaughtered (federally inspected plants) vs. the same period in 2008. The cull rate (calculated using monthly dairy cows slaughtered vs. milk cow inventory) so far for 2009 is above the 1999-2008 annual average of 27.9% at 31.0%.



**Figure 5: Annualized Cull<sup>1</sup> Rate For U.S. Dairy Cows (2003-2009).**

<sup>1</sup>Annualized cull rate equals monthly dairy cow slaughter divided by total U.S. dairy cows for the same month times 12.

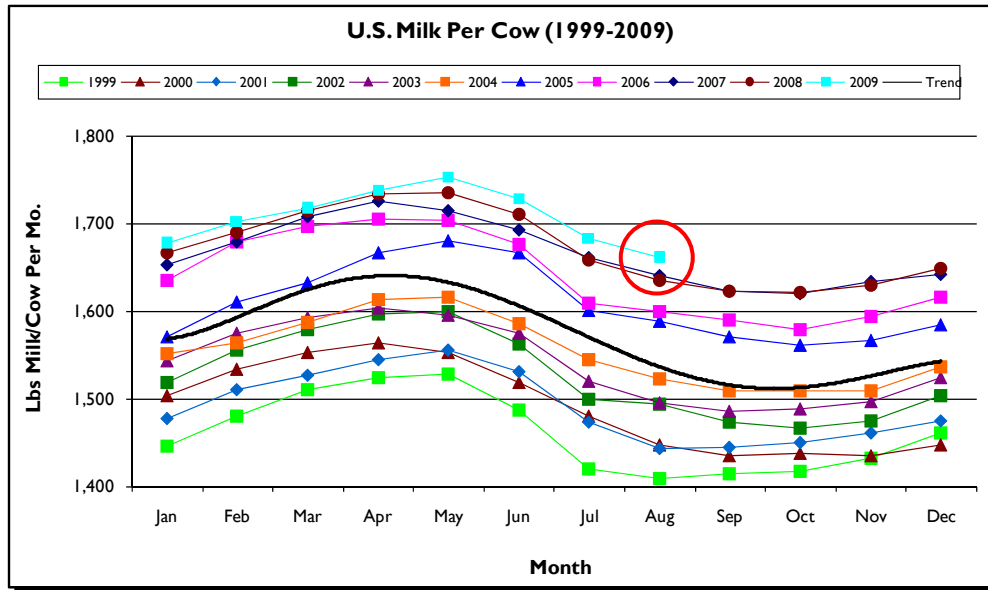
\*Trend equals curve fitted to monthly average annualized cull rates, 1999-2007.

In Aug Michigan milk per cow increased vs. Aug 2008 (+60 lbs/cow). The U.S. trend (1999-2008) increase in milk per cow is +1.5%/year (+292 lbs/cow). Average milk per cow in 2008 was 20,396 lbs. nationally (+130 lbs/cow) and 20,704 lbs. (+188 lbs/cow) in the Top 23 States. Milk per cow in Aug vs. Aug 2008 was up nationally (+1.6; +27 lbs/cow) and up in the Top 23 States (+1.4%; +25 lb/cow)(Figure 6). August marked the second consecutive month milk per cow increase (nationally) was at or above trend. However, it should be remembered that milk per cow in Jul and Aug 2008 were down (-0.2%, and -0.4%, respectively) vs. Jul and Aug 2007.

The Aug milk:feed price ratio rose to 1.93 (Jul, 1.78). August's all-milk price increased (+\$0.70/cwt) to \$12.70/cwt. Feed price changes were: corn, -\$0.01/bu (\$3.32/bu); soybeans, -\$0.95/bu (\$9.85/bu); and alfalfa hay, -\$1/ton (\$110/ton). The cost of 100 lbs. of the USDA's blended dairy feed fell 35.2% vs. Aug 2008 (\$10.17/cwt to \$6.59/cwt). August's feed price was \$0.16/cwt below Jul (-10.8%). August income over feed costs (calculated using 65 lbs. milk and 50 lbs. as fed ration) was lower (-35.6%) than Aug 2008 (\$4.96/cwt vs. \$6.88/cwt), but rose \$0.53/cwt from Jul. August marked the twenty first consecutive month the milk:feed ratio has been below 3.00 and the fifteenth time in the past seventeen months it has been below 2.0.

**Dairy Product Consumption:** USDA figures indicate annual trend growth (1995-2007) in total commercial disappearance is +1.7% per year (Figure 7). Total commercial disappearance was strong for most of 2008 (+2.6% vs. 2007) until Q-4 despite relatively high dairy product prices for most of the year. Total commercial disappearance remains weak in 2009 down 0.5% Jan-Jul vs. Jan-Jul 2008, despite setting monthly records for Feb, Apr, May, and Jun. Annual trend growth (1995-2008) in total cheese commercial disappearance is +2.6% per year. Cheese disappearance in 2008 grew by only 1.2 million pounds vs. 2007 (+0.01%) and, although stronger in 2009, is below trend (+2.6%) for the first seven months of the year at +2.1%. Total cheese disappearance experienced record months for Mar, Apr,

May, Jun, and Jul primarily due to strong Am cheese disappearance (record months for Feb, Mar, May, Jun, Jul). Trend annual increase in butter commercial disappearance since 1995 has averaged +3.1% per year. Butter commercial disappearance for most of 2008 was very strong finishing +12.7% vs. 2007. However, Jan-Jul 2009 was **-4.2%** vs. Jan-Jul 2008 despite five of the six months in 2009 above the same months in 2008. Commercial disappearance for Jan-Jul 2009 (vs. Jan-Jul 2008) for specific dairy products was: Am cheese +4.4%, other cheese +1.4%, and NFD **-7.1%**. Composition adjusted fluid milk sales were up in Jul (+2.2%) vs. Jul 2008 (YTD vs. 2008, +1.3%). July marked the eighth time in nine months that fluid sales increased vs. the same month in the previous year.



**Figure 6: Milk Production Per Cow in the U.S. (1999-2009).**

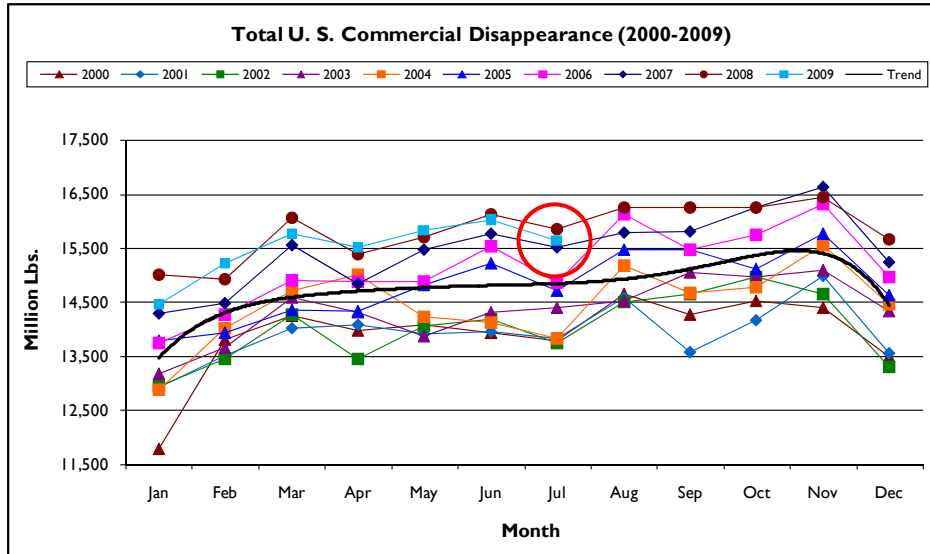
FY-2008 U.S. dairy exports set a record of \$4.099 B, up 63% from FY-2007. The FY-2008 dairy trade surplus totaled \$995 M, compared to dairy trade deficits in FY-2007 of \$221 M, \$895 M in FY-2006, and \$866 M in FY-2005. So far in FY-2009 (Oct-Jul) each month has experienced a trade deficit (except Apr) and is **-\$425 M** through Jul. Total FY-2009 (Oct-Jul) dairy exports are valued at \$1.957 B, down 43% from the same period in FY-2008. Exports in Jul were valued at \$192 M down about 42% vs. Jul 2008 (\$331 M). No CCC NFD purchases took place in Sep, but the CCC has purchased over 276 M pounds since 10/1/08.

The percentage change in CPI for individual dairy products during Jul (vs. Jul, 2008) were: fresh whole milk, **-21.3%**; cheese, **-9.0%**; and butter, **-8.0%**. For Jul (vs. Jul, 2008) the CPI for meat, poultry, fish and eggs fell **-1.6%** and "All Food" rose 0.9%. Overall, retail dairy product prices for consumers fell in Jul (**-9.7%**). The average Jul prices of the various categories of retail dairy products were mixed vs. Jul 2008: whole milk (**-\$0.969/gal**), butter (NA), process cheese (**-\$0.301/lb**), natural cheese (**-\$0.145/lb**), and rose ice cream (+\$0.024/half gal).

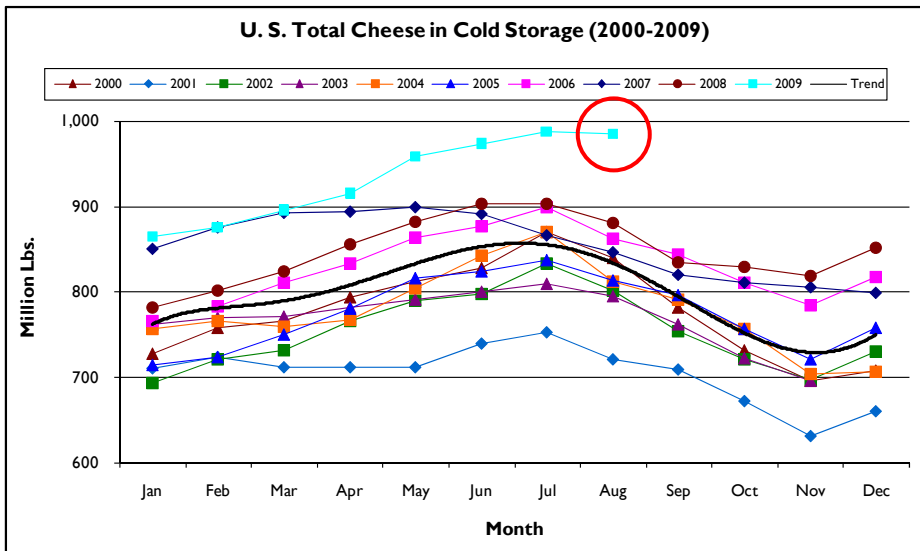
**Dairy Product Inventory and Production:** The latest USDA *Cold Storage Report* (Figure 8) showed inventory *increases* in Aug for both Am cheese (+9.9% at 621.5 M lbs.) and total cheese (+11.9% at 985.3 M lbs.) vs. Aug 2008. Both cheese inventories set all-time Aug highs! In terms of raw numbers, we began Sep 2009 with 53.9 million lbs. **more** Am cheese and 105.0 million lbs. **more** total cheese vs. Sep 2008. Cheese production finished 2008 up from 2007 (Am +3.3%, total +1.2%); Jan-Jul 2009 production was higher than Jan-Jul 2008 (Am +4.1%, total +2.0%). Current cold storage numbers show Aug butter inventory above Aug 2008 (+23.1%, 263.2 M lbs.). This is the third consecutive month butter inventory has increased vs. same month last year following thirteen consecutive months of declines. It also set an all-time Aug inventory high. We began Sep 2009 with 49.4 million lbs. **more** butter than Sep 2008. Butter production finished 2008 up strongly vs. 2007 (+7.7%); Jan-Jul 2009 production was up +0.6% vs. Jan-Jul 2008.

USDA *Dairy Market News* (9/25/09) indicated: **Cheese:** "The cheese market is firm as prices increased sharply on the CME Group cash cheese market from a week ago. Both barrel and block weekly average prices are more than 50 cents per pound below the comparable week in 2008. A few operators feel that the unusually strong finished product sales early in the year may take the edge off the usually more robust fall/holiday cheese interest. Good interest is noted for fresh mozzarella and Swiss with supplies tight to short. Cheddar blocks interest is moderate and barrels steady to occasionally improved. Seasonally tighter milk

supplies, aided by increased fluid use, have reduced current cheese offerings and availability.” **Butter:** “Butter prices retreated slightly this week after strong gains last week. The CME Group cash butter price closed the week at \$1.2600, once cent lower than a week ago. Sales activity has been active with 16 cars sold this week. There are some regional variations, but butter churning remains active. Cream supplies are mixed and depend on milk output, milkfat levels, shifting production of cream based products, fluid milk standardization, and pricing. Printers continue to prepare for upcoming holidays and microfix butter to supplement needs. Others are buying bulk butter from producers.”



**Figure 7: Dairy Total Commercial Disappearance (2000-2009).**



**Figure 8: Total Cheese Held in Cold Storage (2000-2009).**

**Where are milk prices headed?**

The price outlook for 2009 may be looking a little better, but plenty of negative fundamentals still plague the market. Hence, I still believe University of Wisconsin dairy economist Ed Jesse’s comment in his report, *Current Dairy Situation FAQs*, remains valid: “There is light at the end of the tunnel. The length of the tunnel remains somewhat in doubt.”

The most key number, cow numbers, continues to decline as economic pressure continues and CWT herd retirement #8 is now in the books. This round removed 74,114 cows and 2,958 bred heifers. Total U.S. cow numbers stand at 9,160,000, now less than 200,000 above what I believe to be the “magic” number for a turnaround



(9.0 M). Hopefully, the CWT folks will step up to the plate sooner rather than later and get round #9 in the works before Christmas.

Cheese prices are essentially the same as in my Aug report with the CME block/barrel average up only \$0.0013/lb. Since my last report (8/25/09) the average Class III futures prices for 2009 and 2010 have decreased, **-\$0.11/cwt** and **-\$0.09/cwt**, respectively. As of 9/29/09 Class III prices for the first half of 2009 averaged only \$10.19/cwt and \$12.25/cwt for the second half. These Class III prices would produce mailbox prices for the 'typical' Michigan dairy producer averaging about \$11.20/cwt for the first six months of 2009 and \$13.93/cwt for the second six months. Butter has increased by \$0.0800/lb since the last report.

Fortunately feed prices continue to moderate with USDA feed prices down 35.2% vs. last Aug, but the "All-milk" price has dropped 31% since last Aug producing a milk:feed ratio below 2.00 for the tenth consecutive month. IOFC for Aug fell 53.7% vs. Aug 2008 (**-\$2.45/cwt**) to \$4.96. Even though the margin is moving in a positive direction it still is not large enough to produce profits on most U.S. dairy farms. How much more 'bleeding' can the industry endure? At this juncture it appears precious little help will come from FY-2010 MILC payments since current estimates are predicting only small payments for the first three months (Oct-Dec) with no payments after Dec (see Table 4).

Dairy product commercial disappearance continues as a big drag on the market with total commercial disappearance **-0.5%** versus Jan-Jul 2008. Lower fluid prices have created increased fluid disappearance for the eighth time in nine months. One important reason for this decline in total disappearance was the weakening of our critical dairy export market. Through Jul total dairy exports are down 43% (FY-2009); right on target with earlier forecasts. Our overall economy remains weak and the consumer side of the dairy price equation remains an important factor contributing to this down market. Consumer confidence is low, people have reduced summer vacation spending, and this has contributed to severe blight in the food service industry. Restaurant traffic in many areas of the country has been reported to be down by a third or more. Will this continue through the Thanksgiving and Christmas holidays? Dairy consumption will probably continue below trend well into 2010 and tend to track with the overall strength or weakness of the general economy. Moderating retail dairy prices will help, but total cheese inventories are at record levels approaching 1 B pounds! The NDM market is strengthening and the CCC hasn't purchased any powder in nearly two months. I still believe it appears any substantial improvement in farm gate milk prices will be most dependent on decreased milk production via declining cow numbers.

Are dairy markets on the mend? I would like to think so, but they have actually weakened since my Aug report. We are entering the holiday sales season and some areas are reporting and/or anticipating tightening milk supplies. Hopefully this will come to fruition and our national herd will continue to shrink to 9.0 M hd or less. Will the Class III market turn around? Yes, sometime, but when? Like Ed Jesse said, *"There is light at the end of the tunnel. The length of the tunnel remains somewhat in doubt."* Below is a list of the major positive and negative market fundamentals I see impacting the dairy markets. Factors are not quantitative, so if there are more positives than negatives, or vice versa, do not interpret that as favoring a bull or bear market outlook.

The latest USDA *Milk Supply and Demand Estimates* report (September) increased forecasted 2009 milk output to 188.4 billion pounds (**-0.8%** vs. 2008). Forecasted fat basis commercial disappearance for 2009 increased to 187.0 billion pounds (+1.5% vs. 2008). The 2009 USDA predictions for average Class III prices decreased to \$10.65-\$10.85; Class IV down to \$10.10-\$10.40, and the "All Milk" price decreased to \$12.05-\$12.25. Forecasted wholesale dairy product prices for 2009 were: Cheese steady at \$1.235-\$1.255; butter down to \$1.165-\$1.205; NFDM steady at \$0.850-\$0.870; and dry whey steady down to \$0.235-\$0.255.

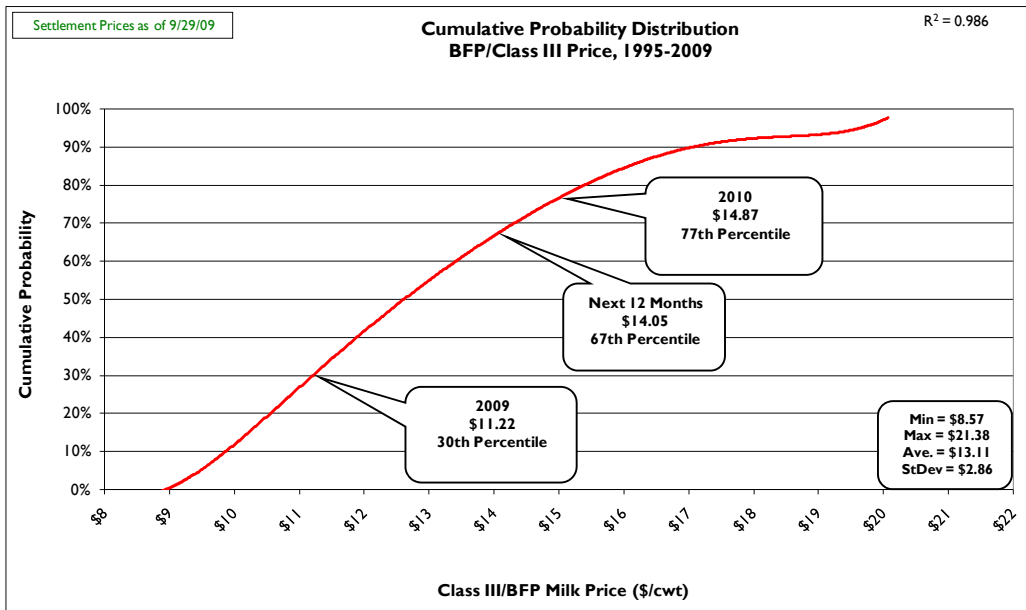
The latest average CME Class III futures prices (9/29/09) (Figures 1 & 9, Table 1) are \$11.22 (2009), \$14.05 (next 12 months), and \$14.87 (2010). These Class III prices would produce potential average "USDA" mailbox prices (Michigan) of \$11.72 (2009), \$14.54 (next 12 months), and \$15.37 (2010)(Figure 10). Remember, the USDA's definition of "mailbox price" deducts "all marketing costs" to arrive at their price. To estimate your gross pay price you should use your own farm's historical basis. Table 4 presents an estimate of future MILC payments based on futures prices for milk, corn, and soybeans as of 9/25/09. Figure 9 is a cumulative distribution of all USDA BFP/Class III monthly prices from 1995-present. The figure shows the current (9/29/09) CME Class III futures averages for 2009, next 12 months, and 2010. The graph shows the percentiles for each of these three prices indicating the percentage of historical monthly BFP/Class III prices that were at or below these levels: 2009, 30<sup>th</sup> percentile; next 12 months, 67<sup>th</sup> percentile; 2010, 77<sup>th</sup> percentile.

**Positive**

U.S. cow numbers dropped by 30,000 hd Jul-->Aug.  
 Dairy cow slaughter numbers are up 247,400 hd in 2009 vs. 2008 (through 9/5/09).  
 U.S. cow numbers have dropped by 174,000 hd since Dec and are down by 111,000 hd in key western states (CA, AZ, ID, NM, WA) vs. Aug 2008.  
 Round 8 CWT herd retirement program has been concluded removing 74,114 cows and 2,958 bred heifers.  
 USDA Dairy Market News (9/25/09) reported as of 9/5/09 7,807 "Canadian Dairy Breeding Female Imports" came into the U.S. since 1/1/09.  
 The USDA has reactivated the Dairy Export Incentive Program (DEIP) to help move more domestic dairy products into international markets.  
 CPI for dairy products fell in Jul vs. Jul 2008 (-9.7%); fluid milk prices \$0.969/gal lower than Jul 2008.

**Negative**

Despite bullish USDA Milk Production Reports in Mar-Jul; plus CWT herd retirements #7 & #8; CME Group Class III futures prices (ave. next 12 mos.) gained only \$1.03/cwt since last report.  
 Cheese stocks up in Aug vs. Aug 2008: Am cheese, +9.9% and total cheese, +11.9%; fifteenth consecutive month cheese inventories above last year.  
 Butter stocks are up significantly (+23.1%) vs. last Aug.  
 Total commercial disappearance down 0.5% vs. Jan-Jul 2008 despite record months for Feb, Apr, May.  
 Total cheese disappearance was well-below trend (+2.8%) in 2008 vs. 2007 at only +0.01% and so far in 2009 remains below trend (+2.1% vs. Jan-Jul 2008) despite record months Mar-Jul.  
 NFDI disappearance very weak with Jan-Jul -7.1% vs. Jan-Jul 2008; over 276 M pounds have been sold to CCC since 10/1/08.  
 The milk:feed ratio has been below 3.00 for twenty one consecutive months and below 2.0 for fifteen of the past seventeen months; Aug at 1.93.  
 IOFC are down 35.6% vs. Aug 2008 (\$4.96/cwt vs. \$6.88/cwt).  
 \$425 M dairy trade deficit first ten months of FY-2009 (Oct-Jul); reverses a string of 16 of 17 months with dairy trade surpluses.  
 July U.S. dairy exports down about 42% (\$192 M) vs. Jul 2008 (\$380 M); YTD FY-2009 dairy exports total \$1.957 B down 43% vs. 2008.  
 The economic "crisis" remains a worldwide problem limiting consumer spending and lower dairy product consumption in both domestic and export markets.



**Figure 9: Cumulative distribution graph of USDA announced monthly BFP/Class III prices and current CME averages. (1995-present).**



**TABLE I. CME Class III futures vs. historical Class III averages.**

Month/ Year	Last Report 8/24/2009	CME Futures 9/29/2009	95-09 Class III Average	Difference vs. Class III Ave.	Difference (Last Report)	Change Since Last Report	Ave. Basis 2003-09	Potential MI "Mailbox" <sup>1</sup>
Jan	\$10.78	\$10.78	\$12.67	(\$1.89)	(\$1.89)	\$0.00	\$0.67	\$11.45
Feb	\$9.31	\$9.31	\$12.06	(\$2.75)	(\$2.75)	\$0.00	\$0.07	\$9.38
Mar	\$10.44	\$10.44	\$12.36	(\$1.92)	(\$1.92)	\$0.00	(\$0.18)	\$10.26
Apr	\$10.78	\$10.78	\$12.67	(\$1.89)	(\$1.89)	\$0.00	(\$0.29)	\$10.49
May	\$9.84	\$9.84	\$12.82	(\$2.98)	(\$2.98)	\$0.00	\$0.27	\$10.11
Jun	\$9.97	\$9.97	\$13.45	(\$3.48)	(\$3.48)	\$0.00	\$0.44	\$10.41
Jul	\$9.97	\$9.97	\$13.71	(\$3.74)	(\$3.74)	\$0.00	\$0.66	\$10.63
Aug	\$11.20	\$11.20	\$13.87	(\$2.67)	(\$2.67)	\$0.00	\$1.04	\$12.24
Sep	\$13.02	\$12.08	\$14.30	(\$1.22)	(\$1.28)	(\$0.94)	\$1.38	\$13.46
Oct	\$13.46	\$12.66	\$13.82	(\$1.16)	(\$0.36)	(\$0.80)	\$0.68	\$13.34
Nov	\$13.49	\$13.56	\$13.08	\$0.48	\$0.41	\$0.07	\$0.62	\$14.18
Dec	\$13.68	\$14.05	\$13.30	\$0.75	\$0.38	\$0.37	\$0.59	\$14.64
Jan '10	\$13.92	\$14.09	\$12.67	\$1.42	\$1.25	\$0.17	\$0.67	\$14.76
Feb '10	\$14.01	\$14.26	\$12.06	\$2.20	\$1.95	\$0.25	\$0.07	\$14.33
Mar '10	\$14.08	\$14.33	\$12.36	\$1.97	\$1.72	\$0.25	(\$0.18)	\$14.15
Apr '10	\$14.45	\$14.24	\$12.67	\$1.57	\$1.78	(\$0.21)	(\$0.29)	\$13.95
May '10	\$14.53	\$14.48	\$12.82	\$1.66	\$1.71	(\$0.05)	\$0.27	\$14.75
Jun '10	\$14.99	\$14.70	\$13.45	\$1.26	\$1.55	(\$0.29)	\$0.44	\$15.14
Jul '10	\$15.26	\$14.90	\$13.71	\$1.19	\$1.55	(\$0.36)	\$0.66	\$15.56
Aug '10	\$15.51	\$15.21	\$13.87	\$1.34	\$1.64	(\$0.30)	\$1.04	\$16.25
Sep '10	\$15.74	\$15.45	\$14.30	\$1.15	\$1.44	(\$0.29)	\$1.38	\$16.83
Oct '10	\$15.56	\$15.50	\$13.82	\$1.68	\$1.74	(\$0.06)	\$0.68	\$16.18
Nov '10	\$15.61	\$15.65	\$13.08	\$2.57	\$2.53	\$0.04	\$0.62	\$16.27
Dec '10	\$15.80	\$15.63	\$13.30	\$2.33	\$2.50	(\$0.17)	\$0.59	\$16.22
Jan '11	\$16.25	\$16.00	\$12.67	\$3.33	\$3.58	(\$0.25)	\$0.67	\$16.67
Feb '11	\$16.02	\$15.96	\$12.06	\$3.90	\$3.96	(\$0.06)	\$0.07	\$16.03
Mar '11	\$15.98	\$15.93	\$12.36	\$3.57	\$3.62	(\$0.05)	(\$0.18)	\$15.75
Apr '11	\$15.88	\$16.05	\$12.67	\$3.38	\$3.21	\$0.17	(\$0.29)	\$15.76
May '11	\$16.01	\$15.90	\$12.82	\$3.08	\$3.19	(\$0.11)	\$0.27	\$16.17
Jun '11	\$15.41	\$15.50	\$13.45	\$2.06	\$1.97	\$0.09	\$0.44	\$15.94
Jul '11	\$15.75	\$15.75	\$13.71	\$2.04	\$2.04	\$0.00	\$0.66	\$16.41
Aug '11	\$15.80	\$15.80	\$13.87	\$1.93	\$1.93	\$0.00	\$1.04	\$16.84
<b>2009</b>	<b>\$11.33</b>	<b>\$11.22</b>	<b>\$13.17</b>	<b>(\$1.95)</b>	<b>(\$1.85)</b>	<b>(\$0.11)</b>	<b>\$0.50</b>	<b>\$11.72</b>
<b>Next 12 mo.</b>	<b>\$13.84</b>	<b>\$14.05</b>	<b>\$13.17</b>	<b>\$0.87</b>	<b>\$1.03</b>	<b>\$0.21</b>	<b>\$0.50</b>	<b>\$14.54</b>
<b>2010</b>	<b>\$14.96</b>	<b>\$14.87</b>	<b>\$13.17</b>	<b>\$1.70</b>	<b>\$1.78</b>	<b>(\$0.09)</b>	<b>\$0.50</b>	<b>\$15.37</b>

<sup>1</sup>Potential mailbox price for MI based on 2003-2008 basis (i.e., basis calculated as USDA MI mailbox price minus Class III price).

**TABLE 2. BFP/Class III Milk Price Historical Data**

Month	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average	Median	StDev	Min	Max
Jan	\$11.35	\$12.73	\$11.94	\$13.25	\$16.27	\$10.05	\$9.99	\$11.87	\$9.78	\$11.61	\$14.14	\$13.39	\$13.56	\$19.32	\$10.78	\$12.67	\$11.94	\$2.55	\$9.78	\$19.32
Feb	\$11.79	\$12.59	\$12.46	\$13.32	\$10.27	\$9.54	\$10.27	\$11.63	\$9.66	\$11.89	\$14.70	\$12.20	\$14.18	\$17.03	\$9.31	\$12.06	\$11.89	\$2.15	\$9.31	\$17.03
Mar	\$11.89	\$12.70	\$12.49	\$12.81	\$11.62	\$9.54	\$11.42	\$10.65	\$9.11	\$14.49	\$14.08	\$11.11	\$15.09	\$18.00	\$10.44	\$12.36	\$11.89	\$2.32	\$9.11	\$18.00
Apr	\$11.16	\$13.09	\$11.44	\$12.01	\$11.81	\$9.41	\$12.06	\$10.85	\$9.41	\$19.66	\$14.61	\$10.93	\$16.09	\$16.76	\$10.78	\$12.67	\$11.81	\$2.90	\$9.41	\$19.66
May	\$11.12	\$13.77	\$10.70	\$10.88	\$11.26	\$9.37	\$13.83	\$10.82	\$9.71	\$20.58	\$13.77	\$10.83	\$17.60	\$18.18	\$9.84	\$12.82	\$11.12	\$3.45	\$9.37	\$20.58
Jun	\$11.42	\$13.92	\$10.74	\$13.10	\$11.42	\$9.46	\$15.02	\$10.09	\$9.75	\$17.68	\$13.92	\$11.29	\$20.17	\$20.25	\$9.97	\$13.21	\$11.42	\$3.63	\$9.46	\$20.25
Jul	\$11.23	\$14.49	\$10.86	\$14.77	\$13.59	\$10.66	\$15.46	\$9.33	\$11.78	\$14.85	\$14.35	\$10.92	\$21.38	\$18.24	\$9.97	\$13.46	\$13.59	\$3.31	\$9.33	\$21.38
Aug	\$11.55	\$14.94	\$12.07	\$14.99	\$15.79	\$10.13	\$15.55	\$9.54	\$13.80	\$14.04	\$13.60	\$11.06	\$19.83	\$17.32	\$11.20	\$13.69	\$13.80	\$2.83	\$9.54	\$19.83
Sep	\$12.08	\$15.37	\$12.79	\$15.10	\$16.26	\$10.76	\$15.90	\$9.92	\$14.30	\$14.72	\$14.30	\$12.29	\$20.07	\$16.28		\$14.30	\$14.51	\$2.61	\$9.92	\$20.07
Oct	\$12.61	\$14.13	\$12.83	\$16.04	\$11.49	\$10.02	\$14.60	\$10.72	\$14.39	\$14.16	\$14.35	\$12.32	\$18.70	\$17.06		\$13.82	\$14.15	\$2.40	\$10.02	\$18.70
Nov	\$12.87	\$11.61	\$12.96	\$16.84	\$9.79	\$8.57	\$11.31	\$9.84	\$13.47	\$14.89	\$13.35	\$12.84	\$19.22	\$15.51		\$13.08	\$12.92	\$2.89	\$8.57	\$19.22
Dec	\$12.91	\$11.34	\$13.29	\$17.34	\$9.63	\$9.37	\$11.80	\$9.74	\$11.87	\$16.14	\$13.37	\$13.47	\$20.60	\$15.28		\$13.30	\$13.10	\$3.18	\$9.37	\$20.60
Average	\$11.83	\$13.39	\$12.05	\$14.20	\$12.43	\$9.74	\$13.10	\$10.42	\$11.42	\$15.39	\$14.05	\$11.89	\$18.04	\$17.44	\$10.29					
StDev	\$0.65	\$1.26	\$0.92	\$1.97	\$2.45	\$0.61	\$2.18	\$0.81	\$2.09	\$2.74	\$0.45	\$0.99	\$2.68	\$1.46	\$0.62					
Min	\$11.12	\$11.34	\$10.70	\$10.88	\$9.63	\$8.57	\$9.99	\$9.33	\$9.11	\$11.61	\$13.35	\$10.83	\$13.56	\$15.28	\$9.31					
Max	\$12.91	\$15.37	\$13.29	\$17.34	\$16.27	\$10.76	\$15.90	\$11.87	\$14.39	\$20.58	\$14.70	\$13.47	\$21.38	\$20.25	\$11.20					



**TABLE 3. Class IV Milk Price Historical Data**

Class IV Price

Month	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Average	Median	StDev	Min	Max
Jan	\$10.73	\$12.13	\$11.93	\$10.07	\$10.97	\$12.52	\$12.20	\$12.53	\$16.29	\$9.59	\$11.90	\$12.03	\$1.86	\$9.59	\$16.29
Feb	\$10.80	\$12.70	\$11.54	\$9.81	\$12.21	\$12.74	\$11.10	\$12.71	\$14.67	\$9.45	\$11.77	\$11.88	\$1.56	\$9.45	\$14.67
Mar	\$11.00	\$13.46	\$11.42	\$9.79	\$14.10	\$12.66	\$10.68	\$13.71	\$14.17	\$9.64	\$12.06	\$12.04	\$1.77	\$9.64	\$14.17
Apr	\$11.38	\$14.41	\$11.09	\$9.73	\$14.57	\$12.61	\$10.36	\$16.12	\$14.56	\$9.82	\$12.47	\$12.00	\$2.31	\$9.73	\$16.12
May	\$11.91	\$15.04	\$10.57	\$9.74	\$14.50	\$12.20	\$10.33	\$18.48	\$15.26	\$10.14	\$12.82	\$12.06	\$2.88	\$9.74	\$18.48
Jun	\$12.38	\$15.33	\$10.52	\$9.76	\$13.72	\$12.33	\$10.22	\$20.76	\$15.92	\$10.22	\$13.12	\$12.36	\$3.46	\$9.76	\$20.76
Jul	\$11.87	\$14.81	\$10.45	\$9.95	\$13.31	\$13.17	\$10.21	\$21.64	\$16.60	\$10.15	\$13.22	\$12.52	\$3.70	\$9.95	\$21.64
Aug	\$11.87	\$15.06	\$10.41	\$10.14	\$12.46	\$13.44	\$10.64	\$21.87	\$16.64	\$10.38	\$13.29	\$12.17	\$3.72	\$10.14	\$21.87
Sep	\$11.94	\$15.59	\$10.22	\$10.05	\$13.00	\$13.75	\$11.10	\$21.61	\$15.45		\$13.63	\$13.00	\$3.62	\$10.05	\$21.61
Oct	\$11.81	\$12.77	\$10.50	\$10.16	\$12.81	\$13.61	\$11.51	\$21.31	\$13.62		\$13.12	\$12.77	\$3.31	\$10.16	\$21.31
Nov	\$13.00	\$11.97	\$10.58	\$10.30	\$13.34	\$12.90	\$12.11	\$20.40	\$12.25		\$12.98	\$12.25	\$2.97	\$10.30	\$20.40
Dec	\$13.27	\$11.79	\$10.49	\$10.52	\$13.42	\$12.57	\$12.30	\$19.18	\$10.35		\$12.65	\$12.30	\$2.72	\$10.35	\$19.18
Average	\$11.83	\$13.76	\$10.81	\$10.00	\$13.20	\$12.88	\$11.06	\$18.36	\$14.65	\$9.92					
StDev	\$0.79	\$1.43	\$0.55	\$0.25	\$1.02	\$0.51	\$0.79	\$3.64	\$1.87	\$0.34					
Min	\$10.73	\$11.79	\$10.22	\$9.73	\$10.97	\$12.20	\$10.21	\$12.53	\$10.35	\$9.45					
Max	\$13.27	\$15.59	\$11.93	\$10.52	\$14.57	\$13.75	\$12.30	\$21.87	\$16.64	\$10.38					

**TABLE 4. Estimated MILC Payments (source: Understanding Dairy Markets; Univ. Wis.; <http://future.aae.wisc.edu/>)**

**MILC Payment Forecasts Based on Futures Settlement Prices on Friday, Sep 25, 2009**

Year	Month	Forecast Target Mover	Forecast Mover*	MILC Payment
\$/Cwt.				
2009	Jan	14.73	15.74	0.00
	Feb	14.08	10.72	1.51
	Mar	13.89	9.43	2.01
	Apr	13.89	10.36	1.59
	May	14.23	10.97	1.47
	Jun	14.17	10.08	1.84
	Jul	13.69	10.26	1.54
	Aug	13.69	10.04	1.64
	Sep	13.69	10.93	1.24
	Oct	13.69	12.35	0.60
	Nov	13.69	12.80	0.40
	Dec	13.69	13.54	0.07
2010	Jan	13.69	14.20	0.00
	Feb	13.69	14.21	0.00
	Mar	13.69	14.41	0.00
	Apr	13.69	14.40	0.00
	May	13.69	14.33	0.00
	Jun	13.69	14.45	0.00
	Jul	13.69	14.75	0.00
	Aug	13.69	15.00	0.00
	Sep	13.69	15.30	0.00
	Oct	13.69	15.53	0.00
	Nov	13.69	15.60	0.00
	Dec	13.69	15.65	0.00

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