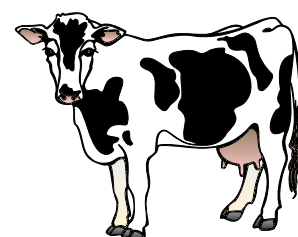


The Milk Market News



January 16, 2009

Price Outlook - The Southeast Uniform milk price for December was \$16.85, down \$2.36 from November, and \$5.59 lower than December 2007 and the lowest since March 2007. December's Class III price was \$15.28, down 23 cents from November, and \$5.32 lower than December a year ago. The Class IV price was down \$1.90 from November to \$10.35, and \$8.83 under December 2007. Class I utilization was 66.68%, down 1.28% from November. The butterfat price was \$1.5024, down 31 cents from last month. The December Class I price was \$19.23. The January Class I price is \$19.54, up 31 cents from December and \$4.53 lower than January 2008. USDA reported the 23-state milk production up 1.5% in December over December 2007. November production was revised to up 1.3%, -0.1% from the previous estimate. October through December production was up 1.4% from a year ago. Annual production was up 2.5%. Cheese prices approached the support price on December 31 for the first time since March 2006. The last CCC cheese purchases were in 2003. Today, Class III futures prices averaged \$11.82. Class III futures average for January through June was \$10.37 with July through December averaging \$13.26. January through May Class III futures have dropped over \$2.00 over the last month. January futures have dropped over \$8.00 since July, while February and March have dropped \$10.00, April and May \$9.00, and June \$8.00. Class III futures prices on January 16: January \$10.67, down \$2.33 from a month ago; February \$9.35, down \$3.64; March \$9.74, down \$2.29; April \$10.28, down \$2.83; May \$10.65, down \$2.53; June \$11.55, down \$1.78; July \$12.22, down \$1.60; August \$13.08, down \$1.14; September \$13.46, down \$1.07; October \$13.50, down \$1.13; and November \$13.66, down 99 cents. Cheese production in November was at a record pace. Total cheese production was up 1.3% in November over November a year ago. Cheddar production was up 2.3% over a year ago. At the end of the year manufacturers were running extended shifts to handle the volume of milk. November butter production was up 2.2% over a year ago while NDM/SMP production was up 26.4% and dry whey production was down 9.7%. Last week the CCC purchased the first butter since 2003. NDM stocks at the end of November were 21.5% above a year ago, the largest recorded November increase and the most heading into December in fifty years. Fluid milk sales were sluggish late in 2008. September through November sales were up 0.5% over a year ago. Fluid sales are on track to decline for second straight year. November dairy cow slaughter was 208,200 head, down 9,200 (-4.2%) from a year ago and the lowest November figure since 2004.

MILC - It appears there will be a MILC payment for milk produced in February. I use the January Class III futures price to predict the Class I mover price for February. The Class I mover price adjusted for feed cost determines whether a MILC payment will be made. January futures closed today at \$10.67. This price is low enough that the feed cost adjuster will not matter since the Class I mover target is \$13.69 before adjusting for feed cost. The December adjusted target was \$14.43. Feed prices to calculate the adjustment are released on the last day of the month for that month. The production limit per farm was raised to 2.985 million pounds. The twelve month period for counting production is October through September. So, larger herds should look at projected production from February through September when deciding when to start receiving payments. Today futures prices are lower through the spring and increasing into the summer and fall. As volatile as milk prices have been, only time will tell how accurate these projections will be.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat (Pound)
July 08	22.68	24.58	18.24	16.60	67.73	1.6650
Aug 08	21.25	22.27	17.32	16.64	72.09	1.7316
Sep 08	20.63	21.45	16.28	15.45	74.55	1.8024
Oct 08	18.95	19.33	17.06	13.62	73.62	1.8230
Nov 08	19.21	21.13	15.51	12.25	67.96	1.8125
Dec 08	16.85	19.23	15.28	10.35	66.68	1.5024

What Is The Market Offering For Milk To Be Sold in April?

Example: It's Jan.16 and Apr. Class III Milk Futures are trading at \$10.28. Local Apr. basis estimate is +\$2.00.

Then in April: If April Futures	=		\$11.75	\$10.25	\$8.75
and actual blend price	=		13.75	12.25	10.75
Sample Strategies (Executed 1/16)			Realized Prices for April Milk		
1) Sold Futures	@	10.28	\$12.28	\$12.28	\$12.28
2) Bought Put	\$10.00 @	0.38	13.37	11.87	11.62
3) Bought Put	\$10.25 @	0.50	13.25	11.75	11.75
4) Bought Put	\$10.50 @	0.64	13.11	11.86	11.86
5) Synthetic Put:					
Sold Futures	@	10.28			
Bought Call	\$11.50 @	0.14	12.39	12.14	12.14

What Is The Market Offering For Milk To Be Sold in May?

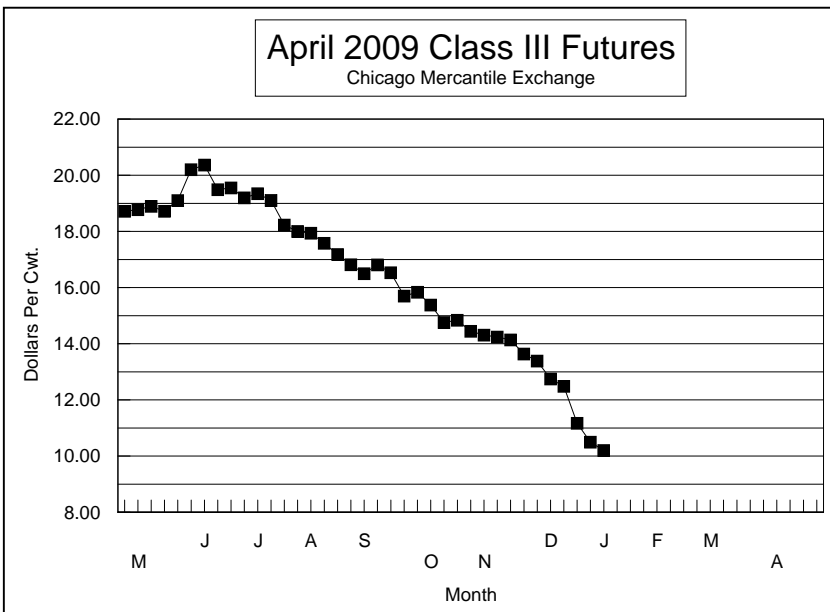
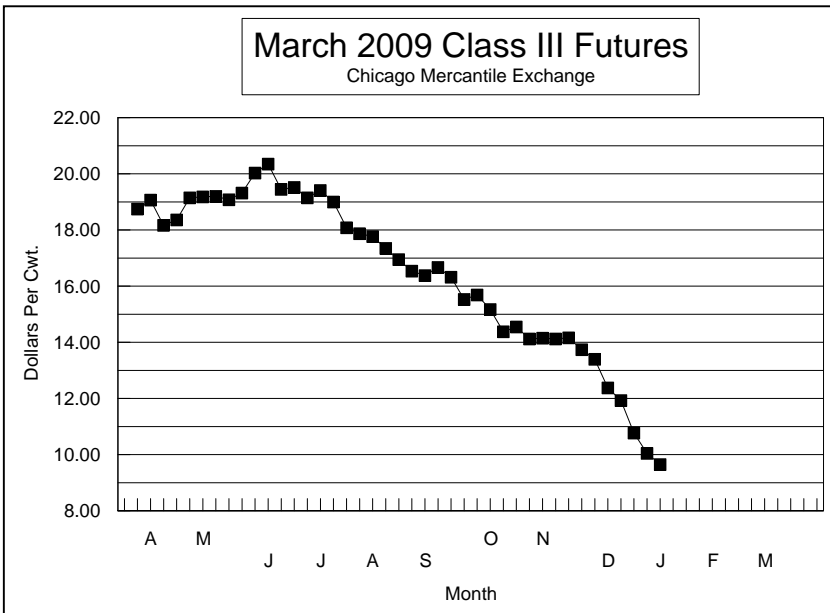
Example: It's Jan. 16 and May Class III Milk Futures are trading at \$10.65. Local May basis estimate is +\$2.00.

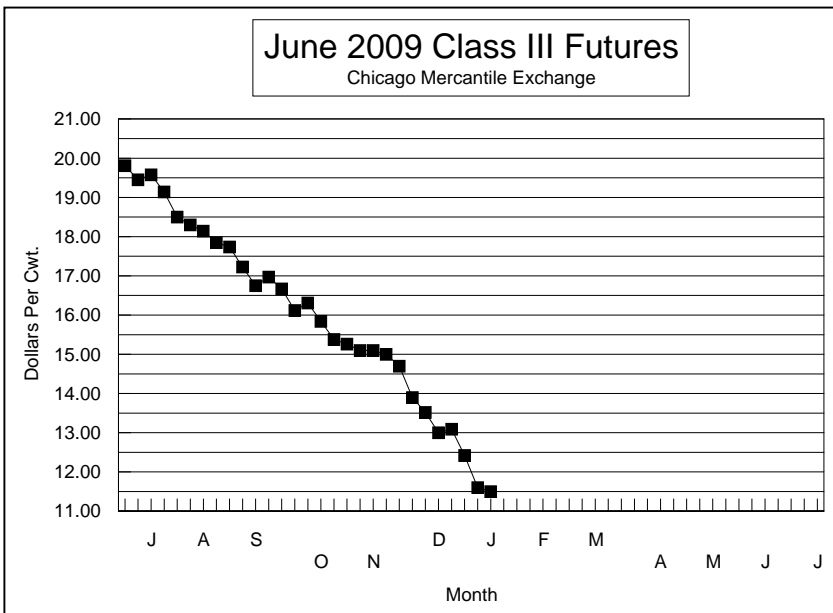
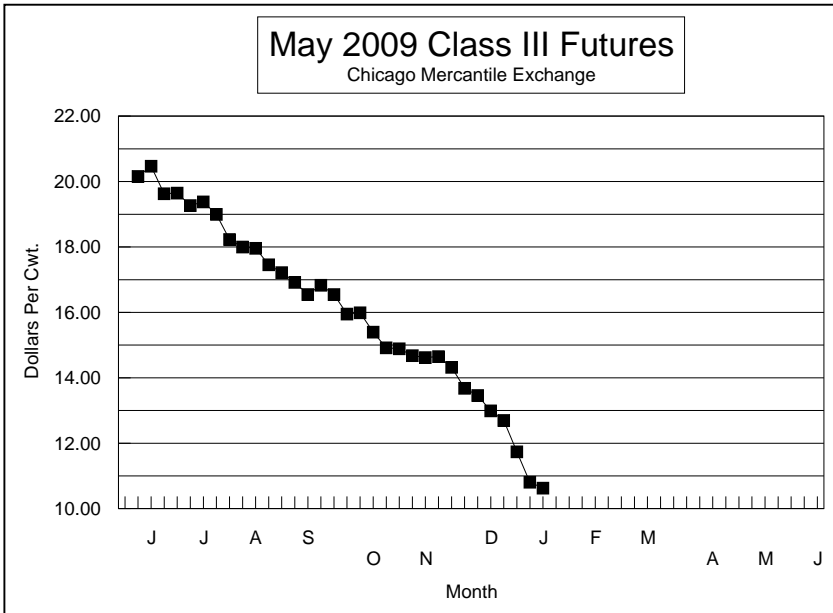
Then in May: If May Futures	=		\$12.25	\$10.75	\$9.25
and actual blend price	=		14.25	12.75	11.25
Sample Strategies (Executed 1/16)			Realized Prices for May Milk		
1) Sold Futures	@	10.65	\$12.65	\$12.65	\$12.65
2) Bought Put	\$10.00 @	0.33	13.92	12.42	11.67
3) Bought Put	\$10.25 @	0.43	13.82	12.32	11.82
4) Bought Put	\$10.50 @	0.54	13.71	12.21	11.96
5) Synthetic Put:					
Sold Futures	@	10.65			
Bought Call	\$11.75 @	0.24	12.91	12.41	12.41

What Is The Market Offering For Milk To Be Sold in June?

Example: It's Jan. 16 and June Class III Milk Futures are trading at \$11.55. Local June basis estimate is +\$2.00.

Then in June: If June Futures	=		\$13.00	\$11.50	\$10.00
and actual blend price	=		15.00	13.50	12.00
Sample Strategies (Executed 1/16)			Realized Prices for June Milk		
1) Sold Futures	@	11.55	\$13.55	\$13.55	\$13.55
2) Bought Put	\$10.50 @	0.28	14.72	13.22	12.22
3) Bought Put	\$11.00 @	0.46	14.54	13.04	12.54
4) Bought Put	\$11.50 @	0.69	14.31	12.81	12.81
5) Synthetic Put:					
Sold Futures	@	11.55			
Bought Call	\$12.75 @	0.30	13.50	13.25	13.25





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