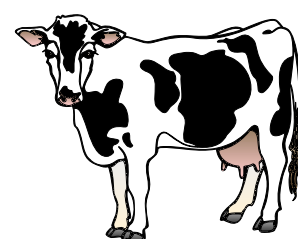


# The Milk Market News



February 19, 2009

**Price Outlook** - The Southeast Uniform milk price for January was \$16.62, down 23 cents from December, and \$5.84 lower than January 2008. January's Class III price was \$10.78, down \$4.50 from December, and \$8.54 lower than January a year ago. This is the lowest Class III price in 5½ years. The Class IV price was down 76 cents from December to \$9.59, and \$6.70 under January 2008. This is the lowest Class IV since Class IV prices began in January 2000. Class I utilization was 68.14%, up 1.46% from December. The butterfat price was \$1.2288, down 27 cents from last month. The January Class I price was \$19.54. The February Class I price is \$14.52, down \$5.02 from January and \$8.26 lower than February 2008. USDA reported the 23-state milk production up 1.0% in January over January 2007. December production was revised to up 1.8%, +0.3% from the previous estimate. Annual production for 2008 was up 2.3% over 2007. For January, USDA's calculated income over feed cost was one-half that of January 2008. The USDA cattle inventory report released on January 1 reported dairy replacements down slightly from a year ago at 47.3 replacements for every 100 cows, down from 47.7. USDA is now projecting the 2009 all-milk price to be the lowest since 1978, \$3.50 under the average for this decade and \$7.00 under last year. Hopefully, milk prices have bottomed out and will be higher as the year goes on. Futures for all months except February are higher than a month ago. Futures showed positive gains yesterday, but gave much of that up today. A poor economy, lower exports, and higher production in combination are not good for milk prices. But December closed today over \$4.50 higher than February. Class III futures prices on February 19: February \$9.28, down 6 cents from a month ago; March \$10.42, up 69 cents; April \$10.52, up 17 cents; May \$11.01, up 37 cents; June \$11.61, up 1cent; July \$12.67, up 32 cents; August \$13.48, up 31 cents; September \$14.02, up 47cents; October \$14.16, up 58 cents; November \$14.56, up 81 cents; and December \$14.56, up 80 cents. Earlier this month cheese buyers were only filling needs and not building stocks. Spot butter reached the lowest price since May 2003 with butter stocks building seasonally. Total cheese production for December was up 1.1% from December a year ago. Cheddar production was up 6.7%, while all other types were down 1.4%. Mozzarella production was down 3.7%. December butter production was up 10.1% over a year ago. Total butter production during 2008 was the most since 1943. NDM/SMP production was up 18.7% over December a year ago. The year-end inventory of NDM/SMP was up 26.2% and the most since July 2000. World export prices have been trading lower since the European Union reinstated export subsidies in late January. U. S. exports fell for the fourth straight month in December. SMP/NDM exports were down 11%, cheese down 15%, butterfat down 68%, and whey proteins down 25%. The U. S. imported 47.3 million pounds of cheese in December, the most since November 2006 and twice as much as May-June 2008. Fluid milk processors are taking advantage of lower prices. Fluid sales were down 0.18% during 2008 when compared to 2007. This was the second straight year for a drop in fluid sales.

**MILC** - There will be a MILC payment for February. The amount will not be set until USDA announces the February prices for corn, soybeans, and alfalfa hay on February 27. So far this month, nearby corn futures have averaged about 35 cents less than January with nearby soybean futures averaging about 30 cents less. Futures prices have been on a downward trend the past few days. If the February USDA price for corn is 35 cents less than last month and soybeans 30 less, the feed index will fall about 35 cents from January to \$7.83 (base is \$7.35) and result in a MILC payment for February around \$1.55. The lowest the MILC could be, if feed prices dropped to the base, is \$1.33.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat (Pound)
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
Jan 09	16.62	19.54	10.78	9.59	68.14	1.2288

**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 \$11.01. Local May basis estimate is +\$2.00.

Then in May: If May Futures	=		\$12.50	\$11.00	\$9.50
and actual blend price	=		14.50	13.00	11.50
Sample Strategies (Executed 2/19)			Realized Prices for May Milk		
1) Sold Futures	@	11.01	\$13.01	\$13.01	\$13.01
2) Bought Put	\$10.00 @	0.17	14.33	12.83	11.83
3) Bought Put	\$10.50 @	0.32	14.18	12.68	12.18
4) Bought Put	\$11.00 @	0.55	13.95	12.45	12.45
5) Synthetic Put:					
Sold Futures	@	11.01			
Bought Call	\$12.25 @	0.16	13.10	12.85	12.85

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

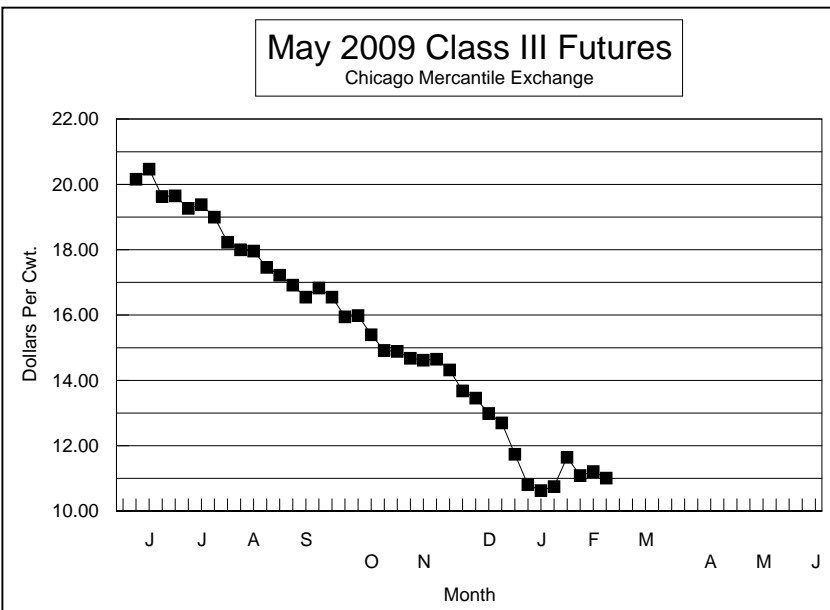
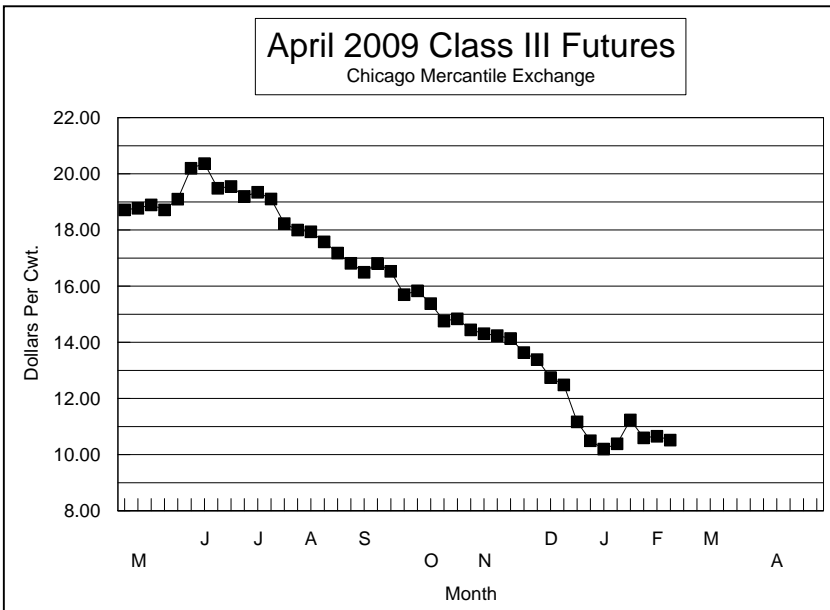
Example: It's Jan. 16 and June Class III Milk Futures are trading at \$11.61. Local June basis estimate is +\$2.00.

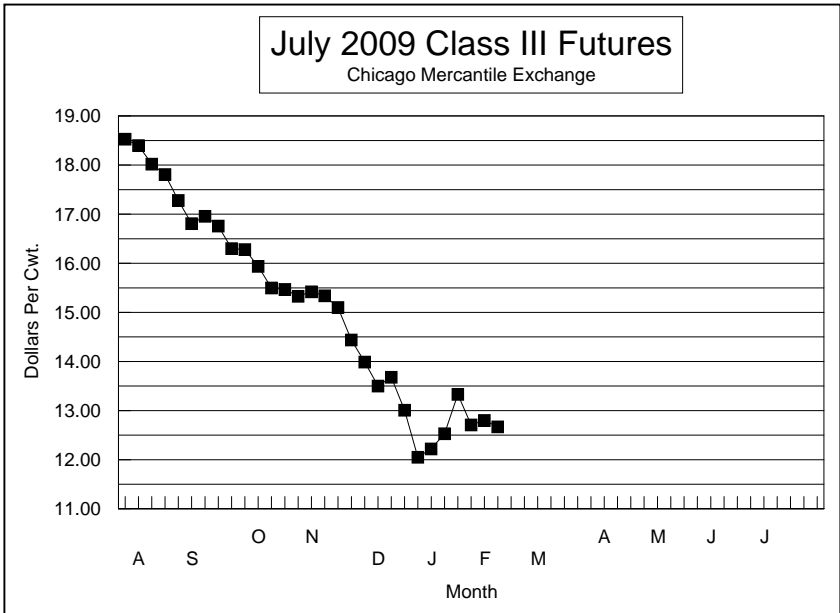
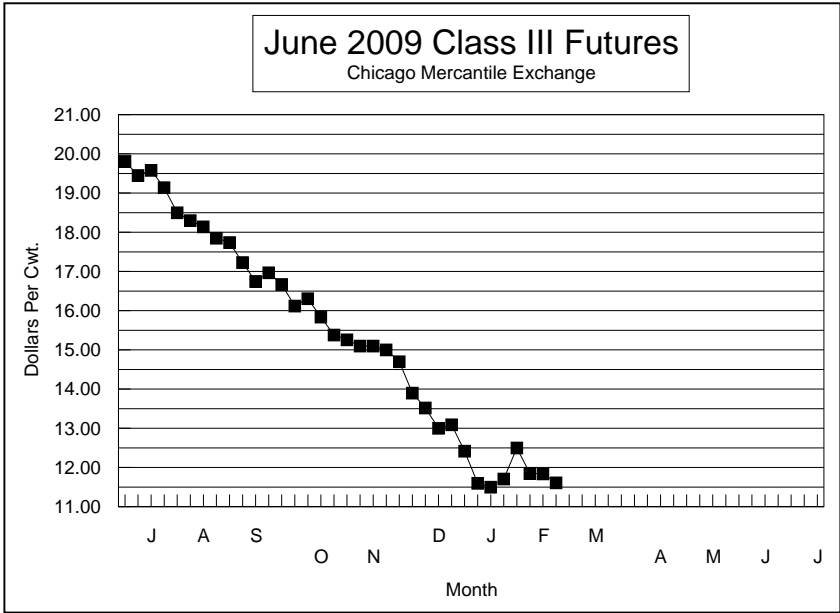
Then in June: If June Futures	=		\$13.00	\$11.50	\$10.00
and actual blend price	=		15.00	13.50	12.00
Sample Strategies (Executed 2/19)			Realized Prices for June Milk		
1) Sold Futures	@	11.61	\$13.61	\$13.61	\$13.61
2) Bought Put	\$10.50 @	0.21	14.79	13.29	12.29
3) Bought Put	\$11.00 @	0.37	14.63	13.13	12.63
4) Bought Put	\$11.50 @	0.59	14.41	12.91	12.91
5) Synthetic Put:					
Sold Futures	@	11.61			
Bought Call	\$12.75 @	0.26	13.60	13.35	13.35

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

Example: It's Mar. 14 and July Class III Milk Futures are trading at \$12.67. Local July basis estimate is +\$2.00.

Then in July: If July Futures	=		\$14.00	\$12.50	\$11.00
and actual blend price	=		16.00	14.50	13.00
Sample Strategies (Executed 2/19)			Realized Prices for July Milk		
1) Sold Futures	@	12.67	\$14.67	\$14.67	\$14.67
2) Bought Put	\$11.50 @	0.29	15.71	14.21	13.21
3) Bought Put	\$12.00 @	0.46	15.54	14.04	13.54
4) Bought Put	\$12.50 @	0.68	15.32	13.82	13.82
5) Synthetic Put:					
Sold Futures	@	12.67			
Bought Call	\$13.75 @	0.38	14.54	14.29	14.29





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