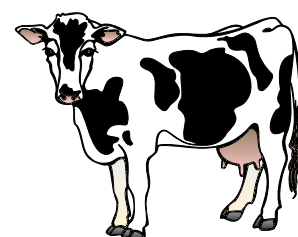
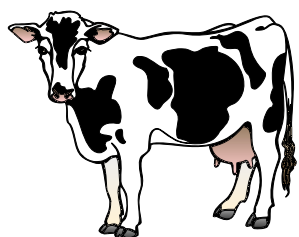


# The Milk Market News



March 18, 2009

**Price Outlook** - The Southeast Uniform milk price for February was \$13.22, down \$3.40 from January, and \$7.68 lower than February 2008. February's Class III price was \$9.31, down \$1.47 from January, and \$7.72 lower than February a year ago. This is the third lowest Class III price over 30 years. The Class IV price was down 14 cents from January to \$9.45, and \$5.22 under February 2008. This is another new low since Class IV prices began in January 2000. Class I utilization was 67.93%, down 0.21% from January. The butterfat price was \$1.1155, down 11 cents from last month. The February Class I price was \$14.52. The March Class I price is \$13.23, down \$1.29 from February and \$6.57 lower than March 2008. USDA reported the 23-state milk production down 2.5% in February from February 2008. January production was revised to up 1.1%. Most of this upward revision comes from USDA dropping Kentucky from the 23 state total and adding Utah. Class III futures prices on March 18: March \$10.40, down 32 cents from a month ago; April \$10.88, up 15 cents; May \$11.38, up 9 cents; June \$12.04, up 28 cents; July \$13.27, up 49 cents; August \$14.37, up 86 cents; September \$14.87, up 73 cents; October \$15.25, up \$1.04; November \$15.45, up 88 cents; December \$15.43, up 76 cents; and January 2010 \$15.44, up 71 cents. Total cheese production in January was up 1% from January a year ago. Cheddar production was up 4.5% while mozzarella production was down 5.6%. January butter production was up 3.5% from a year ago and was the highest monthly production since June 1944. NDM/SMP production was up 5.5% while dry whey production was down 3.6%. Whey prices have been rising with production down. Commercial stocks of NDM are 22.1% more than a year ago and 162.9% more than two years ago. The CCC has been buying butter and NDM. Commercial disappearance of cheese during 2008 was down 0.3% from 2007. This was the first decline in cheese use since 1975. January export value was down 46% from January a year ago. This was the fifth straight month for declines in export value. NDM/SMP exports were down 32%; cheese down 22%; butterfat down 72%; and dry whey up 17%. USDA expects exports on a total solids basis to drop 31% in 2009 from last year. January cow slaughter was up 19% from a year ago at 281,100 head from CWT removals and increased culling. This was the highest monthly slaughter since 1997. The Consumer Confidence Index is at an all-time low. The Consumer Price (CPI) index for milk was down 1.3% in January from December and the lowest since June 2007. The cheese CPI fell for the fifth straight month. The butter CPI was up slightly. November through January fluid sales were up 0.7% over the same period a year ago. Organic milk sales dropped 4.2%.

**MILC** - Prices released on February 27 for calculating the MILC feed cost adjuster were \$4.13 per bushel for corn, \$9.58 per bushel for soybeans, and \$143.00 per ton for alfalfa hay. This raised the feed index to \$7.97 (\$7.35 is the base) which will set the February MILC payment near \$1.63. The base milk price for March has been announced at \$9.43. Corn and soybean prices have been trading up in recent days. The MILC payment for March will be a minimum of \$1.91. Feed prices could push it past \$2.00.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat (Pound)
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
Feb 09	13.22	14.52	9.31	9.45	67.93	1.1155

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

Example: It's Mar. 18 and June Class III Milk Futures are trading at \$12.04. Local June basis estimate is +\$2.00.

Then in June: If June Futures	=		\$13.50	\$12.00	\$10.50
and actual blend price	=		15.50	14.00	12.50
Sample Strategies (Executed 3/18)			Realized Prices for June Milk		
1) Sold Futures	@	12.04	\$14.04	\$14.04	\$14.04
2) Bought Put	\$11.00 @	0.20	15.30	13.80	12.80
3) Bought Put	\$11.50 @	3.60	11.90	10.40	9.90
4) Bought Put	\$12.00 @	0.59	14.91	13.41	13.41
5) Synthetic Put:					
Sold Futures	@	12.04			
Bought Call	\$13.25 @	0.21	14.08	13.83	13.83

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

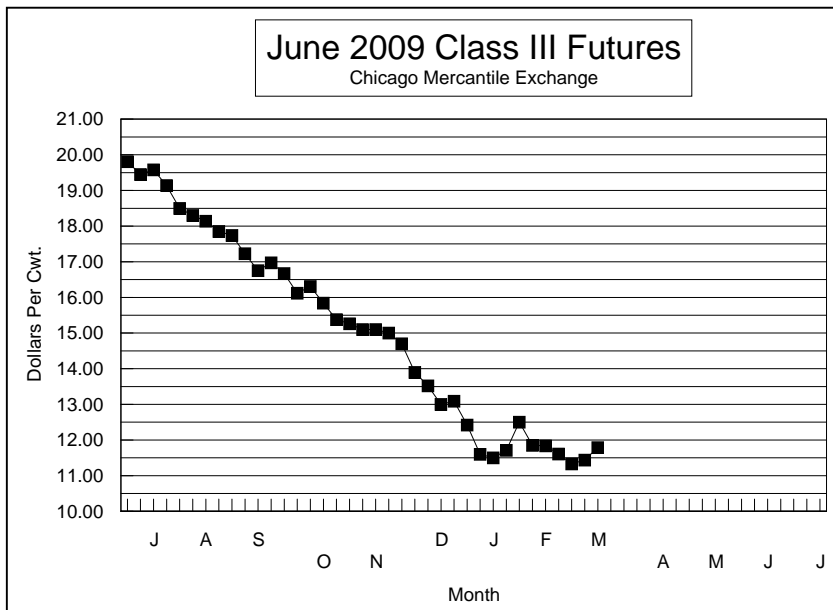
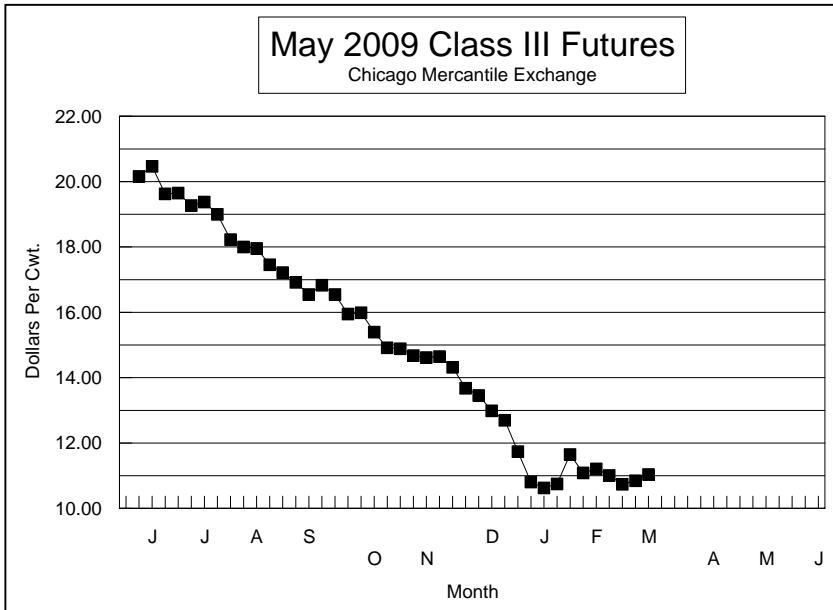
Example: It's Mar. 18 and July Class III Milk Futures are trading at \$13.27. Local July basis estimate is +\$2.00.

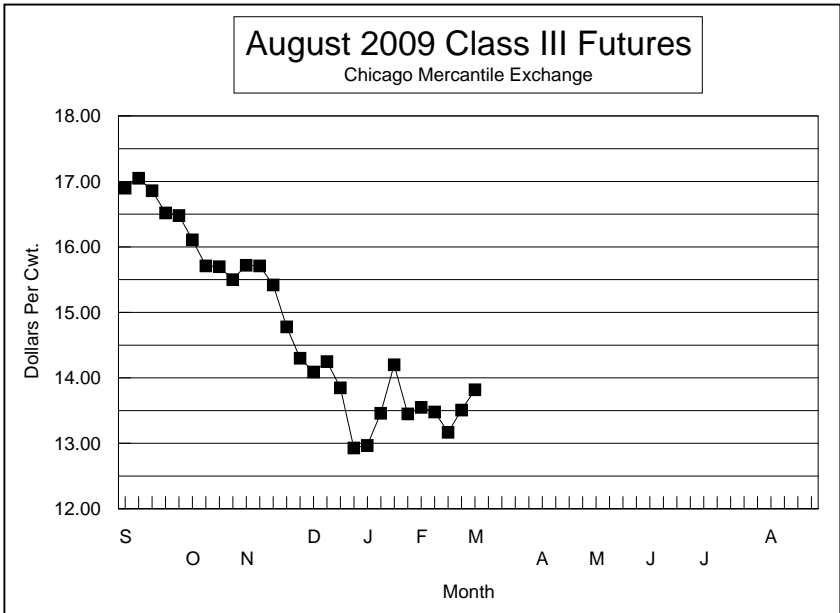
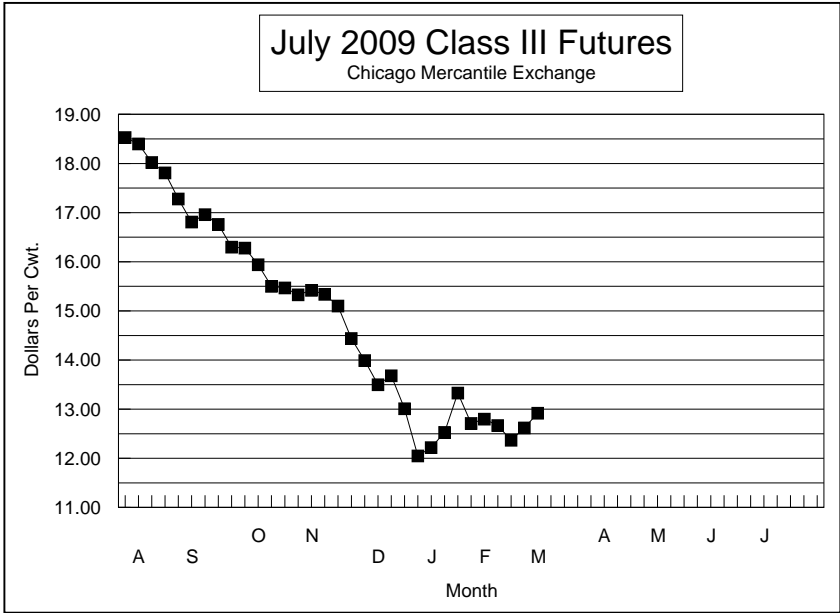
Then in July: If July Futures	=		\$14.75	\$13.25	\$11.75
and actual blend price	=		16.75	15.25	13.75
Sample Strategies (Executed 3/18)			Realized Prices for July Milk		
1) Sold Futures	@	13.27	\$15.27	\$15.27	\$15.27
2) Bought Put	\$12.25 @	0.31	16.44	14.94	13.94
3) Bought Put	\$12.75 @	0.49	16.26	14.76	14.26
4) Bought Put	\$13.25 @	0.73	16.02	14.52	14.52
5) Synthetic Put:					
Sold Futures	@	13.27			
Bought Call	\$14.50 @	0.31	15.21	14.96	14.96

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

Example: It's Mar. 18 and Aug. Class III Milk Futures are trading at \$14.37. Local Aug. basis estimate is +\$2.00.

Then in August: If August Futures	=		\$15.75	\$14.25	\$12.75
and actual blend price	=		17.75	16.25	14.75
Sample Strategies (Executed 3/18)			Realized Prices for August Milk		
1) Sold Futures	@	14.37	\$16.37	\$16.37	\$16.37
2) Bought Put	\$13.25 @	0.41	17.34	15.84	14.84
3) Bought Put	\$13.75 @	0.60	17.15	15.65	15.15
4) Bought Put	\$14.25 @	0.83	16.92	15.42	15.42
5) Synthetic Put:					
Sold Futures	@	14.37			
Bought Call	\$15.25 @	0.55	16.32	15.82	15.82





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