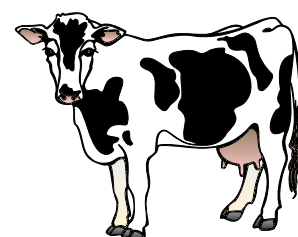


The Milk Market News



May 18, 2009

Price Outlook - The Southeast Uniform milk price for April was \$13.14, up 67 cents from March and \$6.83 lower than April 2008. April's Class III price was \$10.78, up 34 cents from March, and \$5.98 lower than April a year ago. The Class IV price was up 18 cents from March to \$9.82, and \$4.74 under April 2008. Class I utilization was 61.02%, up 0.3% from March. The butterfat price was \$1.1992, up about 5 cents from last month. The April Class I price was \$14.16. The May Class I price is \$14.77, up 61 cents from April and \$5.65 lower than May 2008. USDA reported the 23-state milk production up slightly in April from April 2008. March production was revised to up 0.2%, from down 0.1% in the preliminary estimate. USDA's latest price forecast puts the Class III average for 2009 at \$10.55 to \$11.05, a reduction of 10 cents from last month's estimate. USDA's first 2010 projections put the Class III price from \$13.80 to \$14.80. USDA is also predicting milk production to be down 0.5% in 2010 when compared to 2009. Futures rallied somewhat after the CWT announcement, but have been down the three succeeding sessions. Class III futures prices on May 18: May \$9.83, down 48 cents from a month ago; June \$10.32, down \$1.12; July \$11.68, down 88 cents; August \$13.13, down 72 cents; September \$14.08, down 46 cents; October \$14.66, down 28 cents; November \$14.87, down 9 cents; December \$14.94, down 8 cents; January 2010 \$14.94, down 17 cents; February \$14.97, down 12 cents; and March \$15.30, up 10 cents. There is no spring flush in California this year as both cow numbers and production per cow are down from a year ago. Fewer cows were culled in March, as perhaps producers were waiting to hear from CWT bids. Early April numbers also indicate a reduction in culling. There were 238,200 cows culled in March, down 11.7% from February. CWT has announced plans to remove 102,898 cows in its latest herd reduction. This would represent 1.1% of the U. S. Dairy herd, two billion pounds of milk, and be the largest single CWT reduction. The previous largest reduction was 64,069 cows in November and December 2005. Total cheese production in March set a new monthly record, up 4.3% from a year ago. Cheddar production was up 3.1% while Mozzarella production was down 1.5%. Butter production fell under year ago levels for just the third time in the last 22 months and was down 4.4% from March a year ago. NDM/SMP production was down 5.7% in March and down 0.7% for the first quarter. NDM stocks on March 31 were 15.4% higher than last year. Cheese exports were down 24.8% in the first quarter compared to 2008. SMP exports were down 51.9% while total dairy export value was down 50.9% from the first quarter a year ago. Retail milk prices fell for the fifth straight month in April while retail cheese prices fell for the eighth straight month.

MILC - FSA has announced the MILC payment for March at \$2.00561. Preliminary April feed prices released on April 30 were \$3.87 per bushel for corn, \$9.89 per bushel for soybeans, and \$133.00 per ton for alfalfa hay, resulting in a preliminary MILC estimate for April near \$1.60. The base milk price for May has been announced at \$10.97. The MILC payment for May will be a minimum of \$1.22. Through April, milk prices have triggered MILC payments in 44 of 89 months since the program began.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat (Pound)
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
Mar 09	12.47	13.23	10.44	9.64	60.71	1.1495
Apr 09	13.14	14.16	10.78	9.82	61.02	1.1992

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

Example: It's May 18 and Aug. Class III Milk Futures are trading at \$13.13. Local Aug. basis estimate is +\$2.00.

Then in August: If August Futures	=	\$14.50	\$13.00	\$11.50
and actual blend price	=	16.50	15.00	13.50
Sample Strategies (Executed 5/18)		Realized Prices for August Milk		
1) Sold Futures	@	13.13	\$15.13	\$15.13
2) Bought Put	\$12.00 @	0.27	16.23	14.73
3) Bought Put	\$12.50 @	0.44	16.06	14.56
4) Bought Put	\$13.00 @	0.66	15.84	14.34
5) Synthetic Put:				
Sold Futures	@	13.13		
Bought Call	\$14.25 @	0.35	15.03	14.78

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

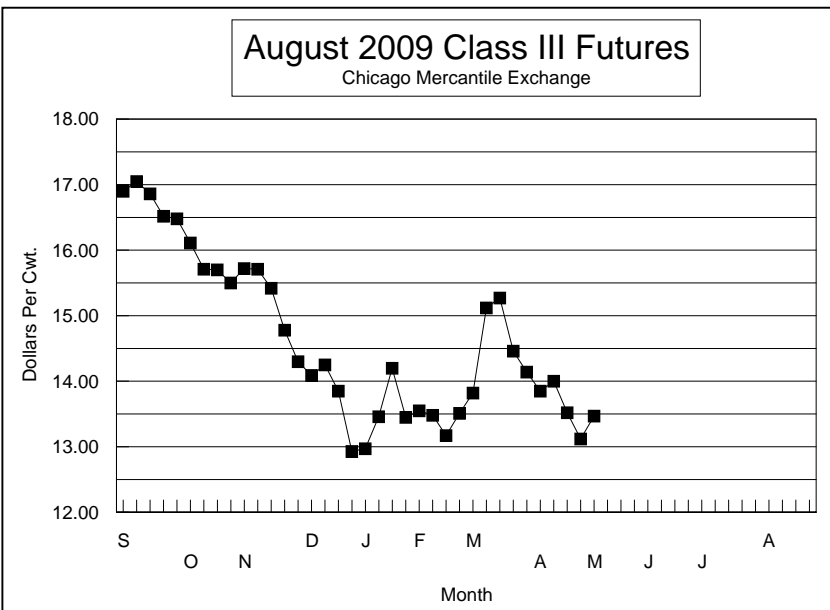
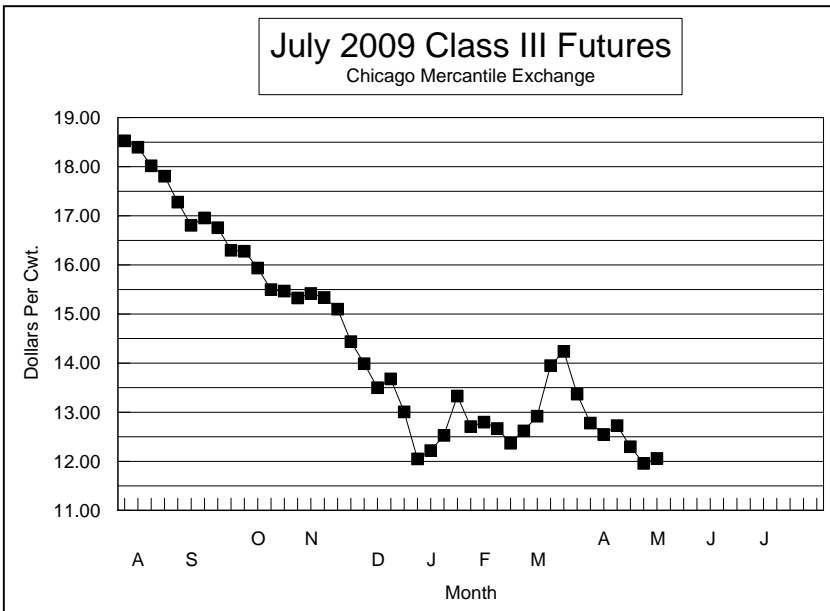
Example: It's May 18 and Sept. Class III Milk Futures are trading at \$14.08. Local Sept. basis estimate is +\$2.00.

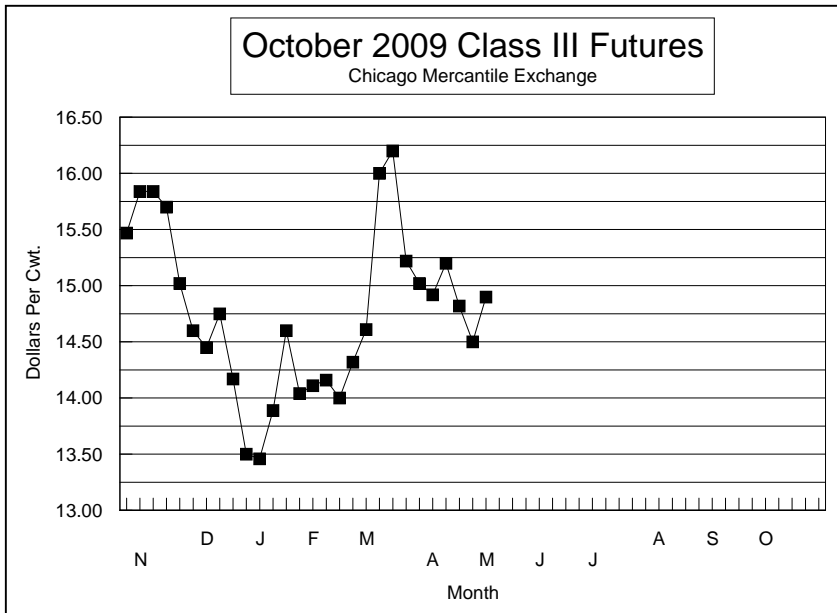
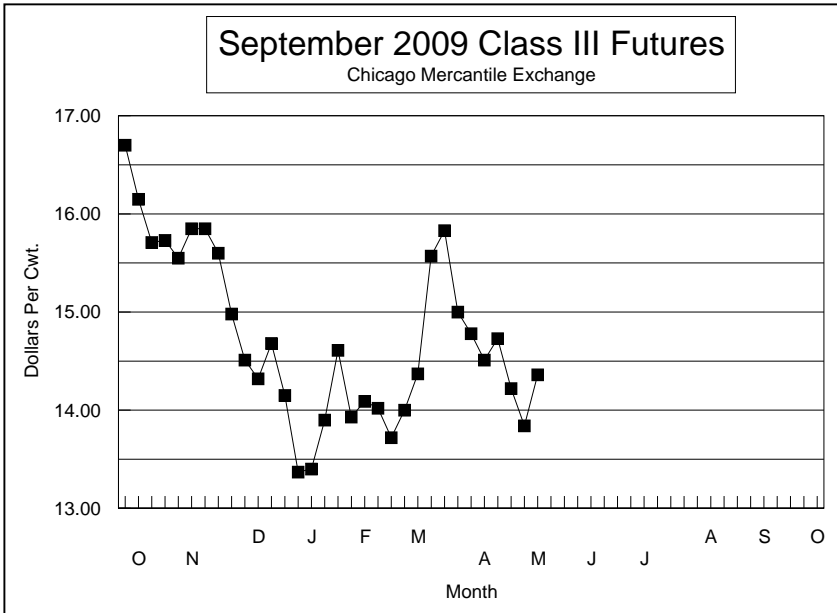
Then in September: If September Futures	=	\$15.50	\$14.00	\$12.50
and actual blend price	=	17.50	16.00	14.50
Sample Strategies (Executed 5/18)		Realized Prices for September Milk		
1) Sold Futures	@	14.08	\$16.08	\$16.08
2) Bought Put	\$13.00 @	0.44	17.06	15.56
3) Bought Put	\$13.50 @	0.60	16.90	15.40
4) Bought Put	\$14.00 @	0.83	16.67	15.17
5) Synthetic Put:				
Sold Futures	@	14.08		
Bought Call	\$15.25 @	0.47	15.86	15.61

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

Example: It's May 18 and Oct. Class III Milk Futures are trading at \$14.66. Local Oct. basis estimate is +\$2.00.

Then in October: If October Futures	=	\$16.00	\$14.50	\$13.00
and actual blend price	=	18.00	16.50	15.00
Sample Strategies (Executed 5/18)		Realized Prices for October Milk		
1) Sold Futures	@	14.66	\$16.66	\$16.66
2) Bought Put	\$13.50 @	0.49	17.51	16.01
3) Bought Put	\$14.00 @	0.68	17.32	15.82
4) Bought Put	\$14.50 @	0.91	17.09	15.59
5) Synthetic Put:				
Sold Futures	@	14.66		
Bought Call	\$15.75 @	0.60	16.31	16.06





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