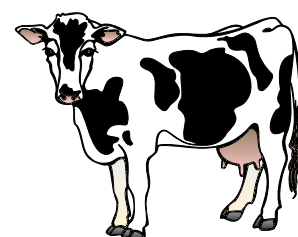


# The Milk Market News



June 18, 2009

**Price Outlook** - The Southeast Uniform milk price for May was \$13.21, up 7 cents from April and \$6.39 lower than May 2008. May's Class III price was \$9.84, down 94 cents from April, and \$7.40 lower than May a year ago. This was only the second time since June 2003 under \$10.00. The Class IV price was up 32 cents from April to \$10.14, and \$5.12 under May 2008. Class I utilization was 57.18%, down 3.84% from April. The butterfat price was \$1.2567, up about 6 cents from last month. The May Class I price was \$14.77. The June Class I price is \$13.88, down 89 cents from May and \$8.10 lower than June 2008. USDA reported the 23-state milk production up 0.2% in May from May 2008. April production was revised to up 0.1%, up 0.1% from the preliminary estimate. Production per cow in May set a new record at 58.2 pounds per day, up 0.4 from last May. Class III futures prices continue to drop as milk supplies remain large when compared to market demand. Second half of 2009 contracts have reached contract lows. Class III futures prices on June 18: June \$9.89, down 43 cents from a month ago; July \$10.13, down \$1.55; August \$10.62, down \$2.51; September \$11.79, down \$2.29; October \$12.90, down \$1.76; November \$13.48, down \$1.39; December \$13.82, down \$1.12; January 2010 \$14.00, down 94 cents; February \$13.98, down 99 cents; March \$14.49, down 81 cents; and April \$14.72, down 88 cents. Total cheese stocks grew by nearly 20 million pounds in April to the highest level since August 1986. Total cheese use was up 0.5% in the first quarter of 2009, after three straight quarters of decline. April cheese production was up 3.2% from April a year ago. Cheddar production was down 0.6%. Commercial use of NDM/SMP was down 18% in the first quarter from a year ago. Domestic use was up 11%, but exports were down 52%. NDM/SMP production was down 4.3% in April from a year ago. Butter production was down 3.9%. Commercial butter inventories are up over 14%. Dry whey production was down 6% in April from a year ago. Export volume was some better in April, but still sharply lower than a year ago. NDM/SMP exports were down 52% from a year ago, but 18% higher than March. April cheese exports were down 25% from a year ago, and butterfat exports were down 83%. Dry whey exports were up 18%. Total export volume was down 51% from last April's record. First quarter fluid milk sales were up 1.7% over last year, but still below 2007. The Consumer Confidence Index increased to 54.9 from 40.8 in April, the largest monthly increase in six years and the highest index in eight months. April cow slaughter was the lowest in 5 months at 215,100 head. This was 4,000 head lower than April 2008. Springing heifer prices are down \$800 to \$900 from year ago levels.

**MILC** - FSA has announced the MILC payment for April at \$1.5863. Preliminary May feed prices released on May 29 were \$4.08 per bushel for corn, \$10.80 per bushel for soybeans, and \$138.00 per ton for alfalfa hay, resulting in a preliminary MILC estimate for May near \$1.52. The base milk price for June has been announced at \$10.08. The MILC payment for June will be a minimum of \$1.62.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat (Pound)
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
May 09	13.21	14.77	9.84	10.14	57.18	1.2567

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

Example: It's June 18 and Sept. Class III Milk Futures are trading at \$11.79. Local Sept. basis estimate is +\$2.00.

Then in September: If September Futures	=		\$13.25	\$11.75	\$10.25
and actual blend price	=		15.25	13.75	12.25
Sample Strategies (Executed 6/18)			Realized Prices for September Milk		
1) Sold Futures	@	11.79	\$13.79	\$13.79	\$13.79
2) Bought Put	\$10.75 @	0.23	15.02	13.52	12.52
3) Bought Put	\$11.25 @	0.40	14.85	13.35	12.85
4) Bought Put	\$11.75 @	0.62	14.63	13.13	13.13
5) Synthetic Put:					
Sold Futures	@	11.79			
Bought Call	\$13.00 @	0.24	13.80	13.55	13.55

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

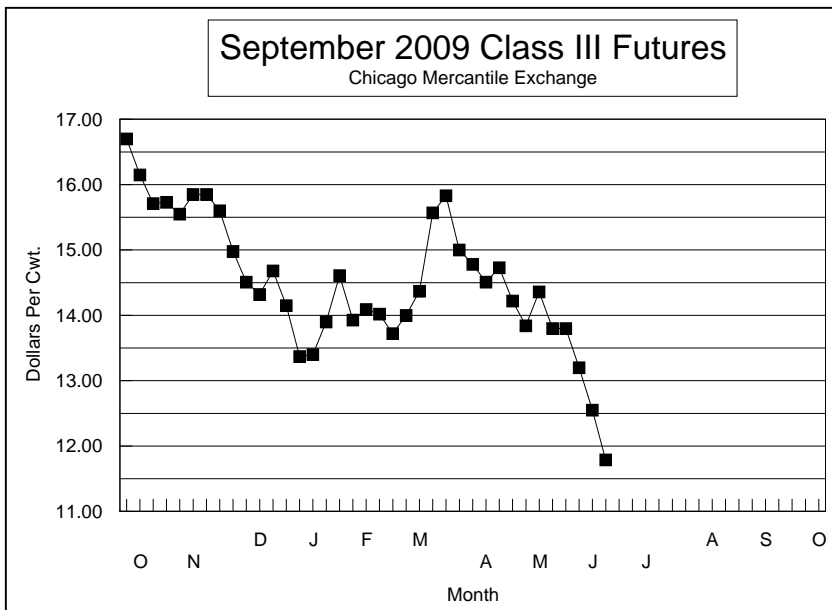
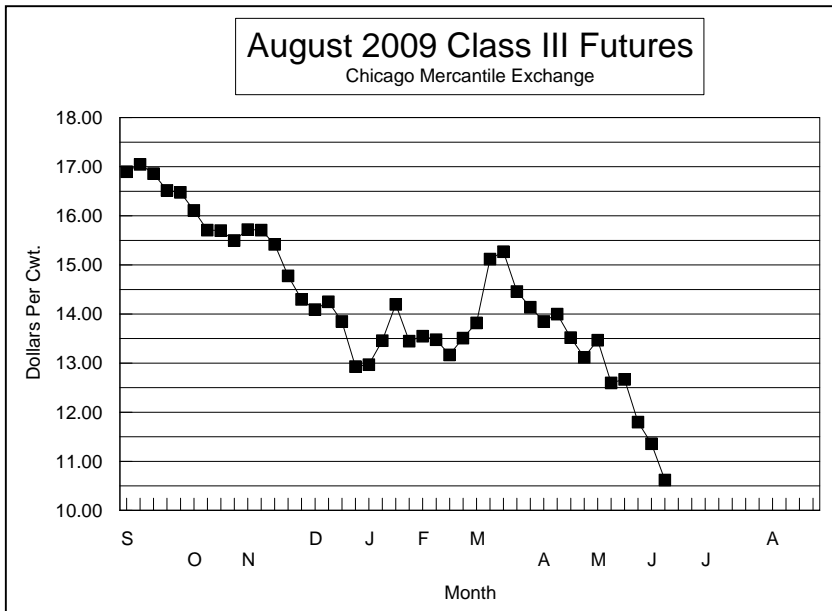
Example: It's June 18 and Oct. Class III Milk Futures are trading at \$12.90. Local Oct. basis estimate is +\$2.00.

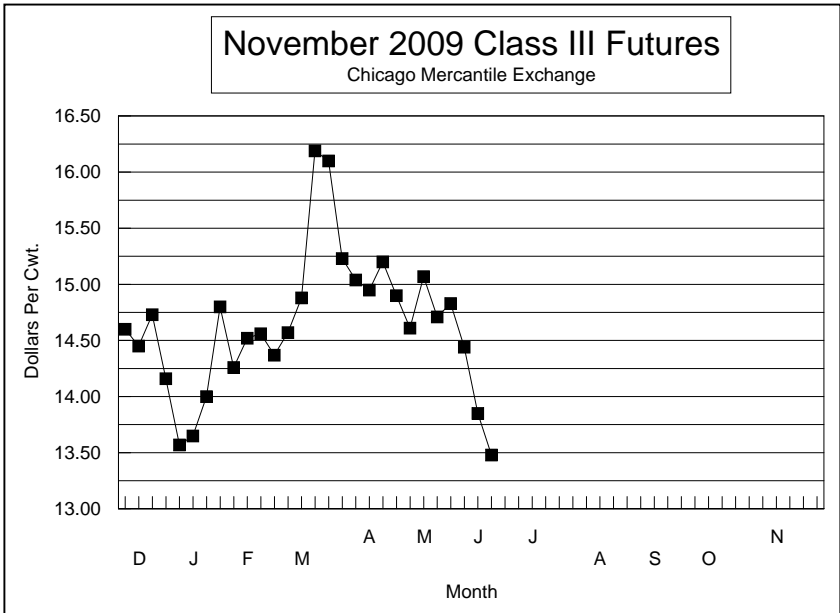
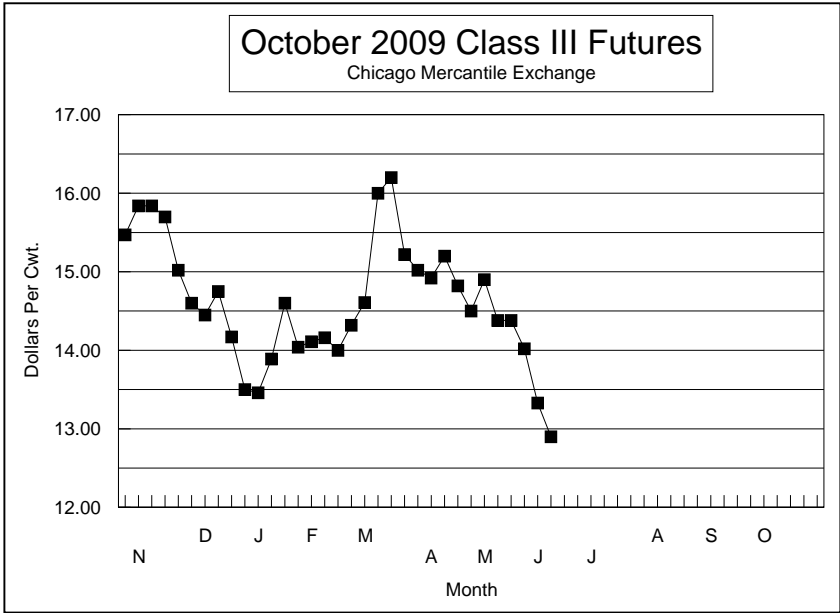
Then in September: If September Futures	=		\$14.50	\$13.00	\$11.50
and actual blend price	=		16.50	15.00	13.50
Sample Strategies (Executed 6/18)			Realized Prices for October Milk		
1) Sold Futures	@	12.90	\$14.90	\$14.90	\$14.90
2) Bought Put	\$11.75 @	0.32	16.18	14.68	13.43
3) Bought Put	\$12.25 @	0.49	16.01	14.51	13.76
4) Bought Put	\$12.75 @	0.71	15.79	14.29	14.04
5) Synthetic Put:					
Sold Futures	@	12.90			
Bought Call	\$14.00 @	0.39	15.01	14.51	14.51

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

Example: It's June. 18 and Nov. Class III Milk Futures are trading at \$13.48. Local Nov. basis estimate is +\$2.00.

Then in November: If November Futures	=		\$15.00	\$13.50	\$12.00
and actual blend price	=		17.00	15.50	14.00
Sample Strategies (Executed 6/18)			Realized Prices for November Milk		
1) Sold Futures	@	13.48	\$15.48	\$15.48	\$15.48
2) Bought Put	\$12.25 @	0.40	16.60	15.10	13.85
3) Bought Put	\$12.75 @	0.59	16.41	14.91	14.16
4) Bought Put	\$13.25 @	1.04	15.96	14.46	14.21
5) Synthetic Put:					
Sold Futures	@	13.48			
Bought Call	\$14.50 @	0.54	15.44	14.94	14.94





John C. Campbell  
 Area Specialist--Farm Management  
 University of Tennessee Extension  
 P O Box 415  
 Columbia, TN 38402-0415  
 931-375-5301  
 e-mail [jccampbell@utk.edu](mailto:jccampbell@utk.edu)  
[www.utextension.utk.edu/managedcamp](http://www.utextension.utk.edu/managedcamp)