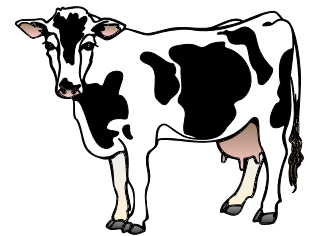


The Milk Market News



July 17, 2009

Price Outlook - The Southeast Uniform milk price for June was \$12.83, down 38 cents from May and \$7.97 lower than June 2008. June's Class III price was \$9.97, up 13 cents from May, and \$10.28 lower than June a year ago. June's Class III price was less than half a year ago. The Class IV price was up 8 cents from May to \$10.22, and \$5.70 under June 2008. Class I utilization was 61.19%, up 4% from May. The butterfat price was \$1.2677, up about 1 cent from last month. The June Class I price was \$13.88. The July Class I price is \$14.06, up 18 cents from June and \$10.52 lower than July 2008. USDA reported the 23-state milk production down 0.1% in June from June 2008. May production was revised to up 0.5%, up 0.3% from the preliminary estimate. Cow numbers were reported down 56,000 from June 2008 and down 29,000 head from May 2009. For the first 5 months of 2009 cow numbers are down 59,000 head, but this has not been enough to help balance supply and demand. From February 2004 through December 2008, the number of dairy cows increased by 338,000 head. Most of the 2009 decrease has come from California, down 24,000 head since December. Texas added 31,000 cows in 2008. Idaho added 24,000. May cow slaughter was 211,700 head, the smallest number since July 2008. Class III futures prices have been stronger the past two or three days with December through May showing gains over a month ago. June through December of this year still traded lower than a month ago. Class III futures prices on July 17: July \$10.00, down 16 cents from a month ago; August \$10.52, down 14 cents; September \$11.65, down 31 cents; October \$12.46, down 57 cents; November \$13.42, down 18 cents; December \$13.98, up 8 cents; January 2010 \$14.25, up 18 cents; February \$14.49, up 44 cents; March \$15.05, up 50 cents; April \$15.30, up 55 cents; and May \$15.40, up 53 cents. Total cheese production in May was up 2.6% from May 2008. Cheddar production was up 3.7%. Butter production was down 0.3%, NDM/SMP production was down 0.7%, and dry whey production was down 3.8%. Commercial cheese use was up 3.25% for February-April, strongest gain in more than a year. Total cheese stocks in May were the highest since August 1995 and 9% above a year ago. Commercial butter inventories had the smallest May increase since 1999. Butter stocks are 7% below a year ago. Fluid milk sales were up 1.4% February through April. Sales of organic milk dropped 5% during the January-April period. Retail milk prices fell for the seventh straight month in June. Retail cheese prices fell for the tenth straight month. The June Consumer Confidence Index was down 5.5 points from May. Cooperatives Working Together (CWT) has announced another herd retirement. Bids are due July 24.

MILC - FSA has announced the MILC payment for May at \$1.46725. Preliminary June feed prices released on June 30 were \$3.93 per bushel for corn, \$11.60 per bushel for soybeans, and \$128.00 per ton for alfalfa hay, resulting in a preliminary MILC estimate for June near \$1.81. The base milk price for July has been announced at \$10.26. The MILC payment for July will be a minimum of \$1.54.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat (Pound)
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
June 09	12.83	13.88	9.97	10.22	61.19	1.2677

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

Example: It's July 17 and Oct. Class III Milk Futures are trading at \$12.46. Local Oct. basis estimate is +\$2.00.

Then in October: If October Futures	=	\$14.00	\$12.50	\$11.00
and actual blend price	=	16.00	14.50	13.00
Sample Strategies (Executed 7/17)		Realized Prices for October Milk		
1) Sold Futures	@	12.46	\$14.46	\$14.46
2) Bought Put	\$11.25 @	0.18	15.82	14.32
3) Bought Put	\$11.75 @	0.32	15.68	14.18
4) Bought Put	\$12.25 @	0.52	15.48	13.98
5) Synthetic Put:				
Sold Futures	@	12.46		
Bought Call	\$12.50 @	0.61	15.35	13.85

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

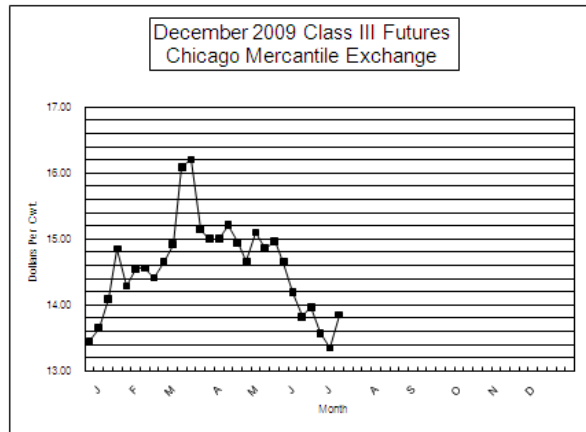
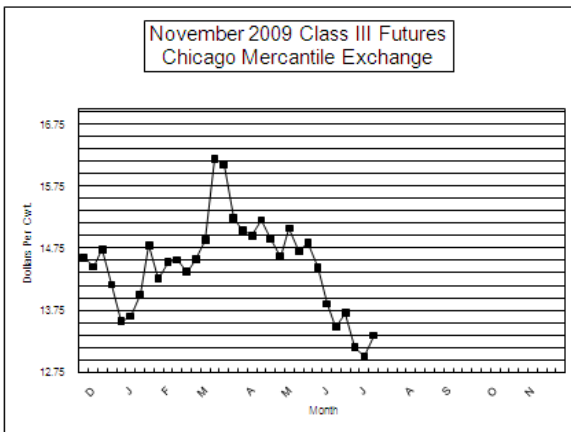
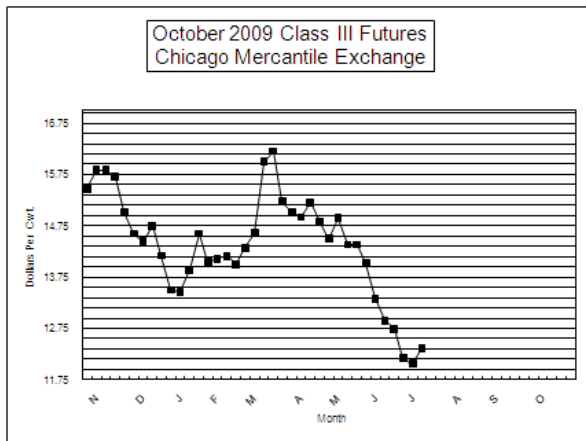
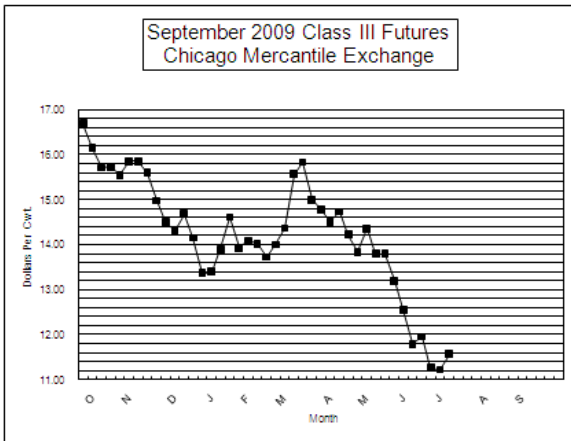
Example: It's July 17 and Oct. Class III Milk Futures are trading at \$13.42. Local Oct. basis estimate is +\$2.00.

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 7/17)		Realized Prices for November Milk		
1) Sold Futures	@	13.42	\$15.42	\$15.42
2) Bought Put	\$12.25 @	0.30	16.70	15.20
3) Bought Put	\$12.75 @	0.47	16.53	15.03
4) Bought Put	\$13.25 @	0.69	16.31	14.81
5) Synthetic Put:				
Sold Futures	@	13.42		
Bought Call	\$13.50 @	0.74	16.18	14.68

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

Example: It's July 17 and Dec. Class III Milk Futures are trading at \$13.98. Local Dec. basis estimate is +\$2.00.

Then in December: If December Futures	=	\$15.50	\$14.00	\$12.50
and actual blend price	=	17.50	16.00	14.50
Sample Strategies (Executed 7/17)		Realized Prices for December Milk		
1) Sold Futures	@	13.98	\$15.98	\$15.98
2) Bought Put	\$12.75 @	0.37	17.13	15.63
3) Bought Put	\$13.25 @	0.54	16.96	15.46
4) Bought Put	\$13.75 @	0.76	16.74	15.24
5) Synthetic Put:				
Sold Futures	@	13.98		
Bought Call	\$14.50 @	0.66	16.32	15.32



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