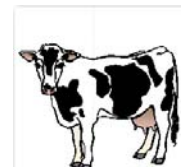
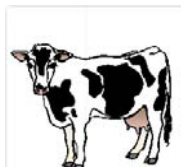


The Milk Market News



August 18, 2009

Price Outlook - The Southeast Uniform milk price for July was \$13.07, up 24 cents from June and \$9.61 lower than July 2008. July's Class III price was \$9.97, same as June, and \$8.27 lower than July a year ago. The Class IV price was down 7 cents from June to \$10.15, and \$6.45 under July 2008. Class I utilization was 66.92%, up 5.73% from June. The butterfat price was \$1.2693, up slightly from last month. The July Class I price was \$14.06. The August Class I price is \$13.84, down 22 cents from July and \$8.43 lower than August 2008. USDA reported the 23-state milk production up 0.1% in July from July 2008. June production was revised to up 0.1%, up 0.2% from the preliminary estimate. USDA is predicting cow numbers to be down 1.5% this year and another 2.6% in 2010. Support prices for cheese and NDM have been raised for August through October with these being the only three months with Class III futures trading above a month ago. Futures prices were mixed today after several days of sharp declines. Futures for next spring and summer had sharper declines than fall and winter prices. Class III futures prices on August 18: August \$11.20, up 68 cents from a month ago; September \$12.58, up 93 cents; October \$12.91, up 45 cents; November \$12.85, down 57 cents; December \$13.10, down 88 cents; January 2010 \$13.26, down 99 cents; February \$13.31, down \$1.18; March \$13.41, down \$1.64; April \$13.59, down \$1.71; May \$13.82, down \$1.58; and June \$14.49, down \$1.35. Large cheese and butter stocks are depressing market prices. June commercial cheese inventories are up 7% from a year ago, the largest increase in total stocks since 1984. For the first five months of this year, commercial cheese disappearance is up 1.2%. Butter consumption is down 3% with domestic use up 9.7%, but exports are down 79.5% from a year ago. NDM/SMP use was down 18.9% for January through May with domestic use up 12.2% and exports down 52.7%. Total dry whey disappearance is down 3.4% with domestic use down 12.6% and exports up 15.9%. June cheese production was up 2% from a year ago. June butter production was up 7.5%. Fluid milk sales grew 0.4% during March through May when compared to a year ago. This was the smallest increase since last August. June cow slaughter was 41.5% higher than a year ago, boosted by the CWT herd retirement. Tentative CWT bids have been accepted to remove 86,710 cows representing 1.8 million pounds of milk. The Consumer Confidence Index is July was 46.6, down from 49.3 in June due to worsening job market.

Dairy Insurance Program Expanded - USDA has expanded the Livestock Gross Margin Insurance Program for Dairy. Initially twenty-nine states were included in the program. Tennessee and three other states were recently added. The program is designed to insure a margin between the revenue for milk and the cost of feed. This insurance can be geared to any size farm. It combines the concepts of using put options to floor milk prices and call options to limit feed prices. Livestock Gross Margin-Dairy is sold by crop insurance agents.

MILC - FSA has announced the MILC payment for June at \$1.84114. Preliminary July feed prices released on July 31 were \$3.33 per bushel for corn, \$10.30 per bushel for soybeans, and \$120.00 per ton for alfalfa hay, resulting in a preliminary MILC estimate for June near \$1.54. There could be no feed cost adjustment for July. The base milk price for August has been announced at \$10.04. The MILC payment for August will be a minimum of \$1.64.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat Price (lb)
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
July 09	13.07	14.06	9.97	10.15	66.92	1.2693

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

Example: It's Aug. 18 and Nov. Class III Milk Futures are trading at \$12.85. Local Oct. basis estimate is +\$2.00.

Then in November: If November Futures	=	\$14.25	\$12.75	\$11.25
and actual blend price	=	16.25	14.75	13.25
Sample Strategies (Executed 8/18)		Realized Prices for November Milk		
1) Sold Futures	@	12.85	\$14.85	\$14.85
2) Bought Put	\$11.75 @	0.18	16.07	14.57
3) Bought Put	\$12.25 @	0.33	15.92	14.42
4) Bought Put	\$12.75 @	0.55	15.70	14.20
5) Synthetic Put:				
Sold Futures	@	12.85		
Bought Call	\$14.00 @	0.21	14.89	14.64

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

Example: It's Aug. 18 and Dec. Class III Milk Futures are trading at \$13.10. Local Dec. basis estimate is +\$2.00.

Then in December: If December Futures	=	\$14.50	\$13.00	\$11.50
and actual blend price	=	16.50	15.00	13.50
Sample Strategies (Executed 8/18)		Realized Prices for December Milk		
1) Sold Futures	@	13.10	\$15.10	\$15.10
2) Bought Put	\$12.00 @	0.18	16.32	14.82
3) Bought Put	\$12.50 @	0.33	16.17	14.67
4) Bought Put	\$13.00 @	0.55	15.95	14.45
5) Synthetic Put:				
Sold Futures	@	13.10		
Bought Call	\$14.25 @	0.28	15.07	14.82

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

Example: It's Aug. 18 and Jan. Class III Milk Futures are trading at \$13.26. Local Jan. basis estimate is +\$2.00.

Then in January: If January Futures	=	\$14.75	\$13.25	\$11.75
and actual blend price	=	16.75	15.25	13.75
Sample Strategies (Executed 8/18)		Realized Prices for January Milk		
1) Sold Futures	@	13.26	\$15.26	\$15.26
2) Bought Put	\$12.25 @	0.35	16.40	14.90
3) Bought Put	\$12.75 @	0.53	16.22	14.72
4) Bought Put	\$13.25 @	0.77	15.98	14.48
5) Synthetic Put:				
Sold Futures	@	13.26		
Bought Call	\$14.50 @	0.34	15.17	14.92

