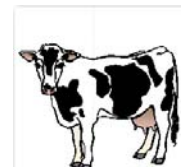
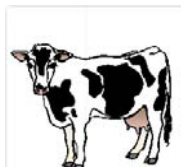


# The Milk Market News



September 18, 2009

**Price Outlook** - The Southeast Uniform milk price for August was \$13.30, up \$1.23 cents from July and \$7.95 lower than August 2008. August's Class III price was \$11.20, up \$1.23 from July, and \$6.12 lower than August a year ago. The Class IV price was up 23 cents from July to \$10.38, and \$6.26 under August 2008. Both the Class III and Class IV prices were the highest of the year. Class I utilization was 70.79%, up 3.87% from July. The butterfat price was \$1.2508, down about 2 cents from last month. The August Class I price was \$13.84. The September Class I price is \$14.73, up 89 cents from August and \$6.72 lower than September 2008. USDA reported the 23-state milk production down 0.2% in August from August 2008. Production increased in the upper Mid-west while declining in the West and Southwest. The dairy cow herd declined by 144,000 head (1.5%) from January through July. Over one-half of the decline came from California, Arizona, and New Mexico. Texas, Kansas, Colorado, Idaho, and Washington also dropped. But cows increased in Michigan, Wisconsin, Minnesota, Ohio, and Indiana. USDA's latest forecast for 2010 expects production to decline 0.9% from 2009. The 2010 Class III price forecast was \$13.75 to \$14.75, while Class IV is forecast from \$11.95 to \$13.05. Futures prices except for September and October were higher today with the winter months showing the largest gains. Class III futures prices on September 18: September \$12.08, down 50 cents from a month ago; October \$12.55, down 36 cents; November \$13.37, up 52 cents; December \$13.97, up 87 cents; January 2010 \$14.03, up 77 cents; February \$14.18, up 87 cents; March \$14.22, up 81; April \$14.45, up 86 cents; May \$14.47, up 65 cents; June \$14.68, up 19 cents; and July \$15.03, up 11 cents. July commercial cheese inventories were up 8.4% over July 2008. Cheese disappearance was up 2.6% for the second quarter while NDM/SMP disappearance was down 20.2% and dry whey down 2.8%. This July was the first July since 2004 that butter inventories increased. July total cheese production was up 2% from July a year ago. Cheddar production was up 0.7% and mozzarella was up 4.6%. Butter production was down 2.2% from a year ago, while NDM/SMP production was down 9.8% and dry whey production up 2.0%. NDM/SMP exports in July were down 8% from a year ago, but the most since September 2008. Cheese exports were the most since last October. Lactose exports were up 21% from a year ago and WPC exports were up 8.0%. However, dry whey exports were 46% under a year ago with butterfat exports 92% lower, the lowest since January 2007. July cow slaughter was 227,800 head, 19,300 more than July 2008 and 28,200 head less than June. May through July fluid sales were up 1.2% from the same period in 2008. USDA's reported feed prices for August were the lowest in two years. The Consumer Confidence Index for August was up almost seven points from July. Retail dairy prices in August were the lowest in two years.

**MILC** - FSA has announced the MILC payment for July at \$1.5435. Preliminary August feed prices released on August 31 were \$3.31 per bushel for corn, \$10.70 per bushel for soybeans, and \$110.00 per ton for alfalfa hay, resulting in a preliminary MILC estimate for August near \$1.64. There was no feed cost adjustment for July and likely will be none for August. The base milk price for September has been announced at \$10.04. The MILC payment for September will be a minimum of \$1.24. The base price for October has been announced at \$12.35, the highest since January. October MILC payment will be minimum of \$0.60.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat Price (lb)
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
Aug 09	13.30	13.84	11.20	10.38	70.79	1.2508

**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 \$13.97. 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 9/18)		Realized Prices for December Milk			
1) Sold Futures	@	13.97	\$15.97	\$15.97	\$15.97
2) Bought Put	\$12.75 @	0.15	17.35	15.85	14.60
3) Bought Put	\$13.25 @	0.29	17.21	15.71	14.96
4) Bought Put	\$13.75 @	0.49	17.01	15.51	15.26
5) Synthetic Put:					
Sold Futures	@	13.97			
Bought Call	\$15.25 @	0.18	16.04	15.79	15.79

**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 \$14.03. Local Jan. basis estimate is +\$2.00.

Then in January: If January Futures	=	\$15.50	\$14.00	\$12.50	
and actual blend price	=	17.50	16.00	14.50	
Sample Strategies (Executed 9/18)		Realized Prices for January Milk			
1) Sold Futures	@	14.03	\$16.03	\$16.03	\$16.03
2) Bought Put	\$13.00 @	0.27	17.23	15.73	14.73
3) Bought Put	\$13.50 @	0.45	17.05	15.55	15.05
4) Bought Put	\$14.00 @	0.67	16.83	15.33	15.33
5) Synthetic Put:					
Sold Futures	@	14.03			
Bought Call	\$15.25 @	0.27	16.01	15.76	15.76

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

Example: It's Aug. 18 and Feb. Class III Milk Futures are trading at \$14.18. Local Feb. basis estimate is +\$2.00.

Then in February: If February Futures	=	\$15.50	\$14.00	\$12.50	
and actual blend price	=	17.50	16.00	14.50	
Sample Strategies (Executed 9/18)		Realized Prices for February Milk			
1) Sold Futures	@	14.18	\$16.18	\$16.18	\$16.18
2) Bought Put	\$13.00 @	0.29	17.21	15.71	14.71
3) Bought Put	\$13.50 @	0.46	17.04	15.54	15.04
4) Bought Put	\$14.00 @	0.67	16.83	15.33	15.33
5) Synthetic Put:					
Sold Futures	@	14.18			
Bought Call	\$15.25 @	0.37	15.91	15.66	15.66

