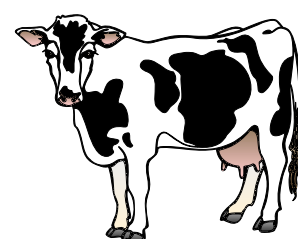


The Milk Market News



October 20, 2008

Price Outlook - The Southeast Uniform milk price for September was \$20.63, down 62 cents from August, and \$3.14 lower than September 2007. September's Class III price was \$16.28, down \$1.04 from August, the lowest since April 2007, and \$3.79 lower than September a year ago. The Class IV price was down \$1.19 from August to \$15.45, and \$6.16 under September 2007. Class I utilization was 74.55%, up 2.5% from August. The butterfat price was \$1.8024, up 7 cents from last month. The September Class I price was \$21.45. The October Class I price is \$19.33, down \$2.12 from September and \$5.36 lower than October 2007. USDA reported the 23-state milk production up 1.9% in September over September 2007. August production was revised to up 1.7%, +0.2% from the previous estimate. Non-fat dry milk spot prices are the lowest in almost two years. A one cent change in the NASS survey price for non-fat dry milk changes the Class II and Class IV prices by 8.6 cents. The strong butter market is holding up Class IV prices. The international powder market is weak. Whey markets also continue to weaken. International demand has weakened from the global financial crisis. Many agricultural commodity prices fell with the other financial markets. The economy is hurting the restaurant business, which reduces demand for dairy products, especially cheese. Class III futures prices on October 20: October \$16.98, down 57 cents from a month ago; November \$15.60, down \$1.35; December \$14.71, down \$2.05; January 2009 \$14.54, down \$1.94; February \$14.41, down \$2.19; March \$14.40, down \$2.27; April \$14.82, down \$1.99; May \$14.95, down \$1.88; June \$15.34, down \$1.63; July \$15.40, down \$1.56; and August \$15.62, down \$1.43. Cheddar cheese production was up 6.5% in August over August a year ago. This was the fifth straight month of higher cheddar production. Total cheese production was up 3% from August 2007. August butter production was up 4.4% over a year ago while NDM/SMP production was up 19.1% and whey production down 7.2%. The Commodity Credit Corporation purchased non-fat dry milk for the first time since July 2006. Commercial disappearance of cheese was down 2% from a year ago on a rolling three-month average for the fourth straight month. The rolling three-month disappearance for butter was up 15.7%, NDM/SMP up 34.6%, and whey down 25.6%. Fluid milk sales were down 0.33%. The Consumer Price Index for retail milk prices was down 0.3 from a year ago. The September consumer confidence level was up slightly, but this was measured before the October meltdown. August dairy cow slaughter was 226,300 head, the highest number for August in the last ten years. CWT sent 25,000 cows to slaughter in August. Year-to-date slaughter is up 3.5% from last year, the highest rate since 2003. However, large numbers of replacements have offset culling. Summer spot milk shipments to Florida and the Southeast were down 40% from a year ago. USDA has not yet determined procedures for the MILC program under the new farm bill. The Class I mover price is set the previous month, but feed prices are not reported until the end of the current month.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat (Pound)
Apr 08	19.97	21.71	16.76	14.56	63.78	1.4418
May 08	19.60	20.42	18.18	15.26	64.74	1.5368
June 08	20.80	21.98	20.25	15.92	70.25	1.6095
July 08	22.68	24.58	18.24	16.60	67.73	1.6650
Aug 08	21.25	22.27	17.32	16.64	72.09	1.7316
Sep 08	20.63	21.45	16.28	15.45	74.55	1.8024

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

Example: It's Oct. 20 and Jan. Class III Milk Futures are trading at \$14.54. Local Dec. basis estimate is +\$2.00.

Then in January: If January Futures	=	\$16.00	\$14.50	\$13.00	
and actual blend price	=	18.00	16.50	15.00	
Sample Strategies (Executed 10/20)		Realized Prices for January Milk			
1) Sold Futures	@	14.54	\$16.54	\$16.54	\$16.54
2) Bought Put	\$13.50 @	0.27	17.73	16.23	15.23
3) Bought Put	\$14.00 @	0.44	17.56	16.06	15.56
4) Bought Put	\$14.50 @	0.67	17.33	15.83	15.83
5) Synthetic Put:					
Sold Futures	@	14.54			
Bought Call	\$15.75 @	0.27	16.52	16.27	16.27

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

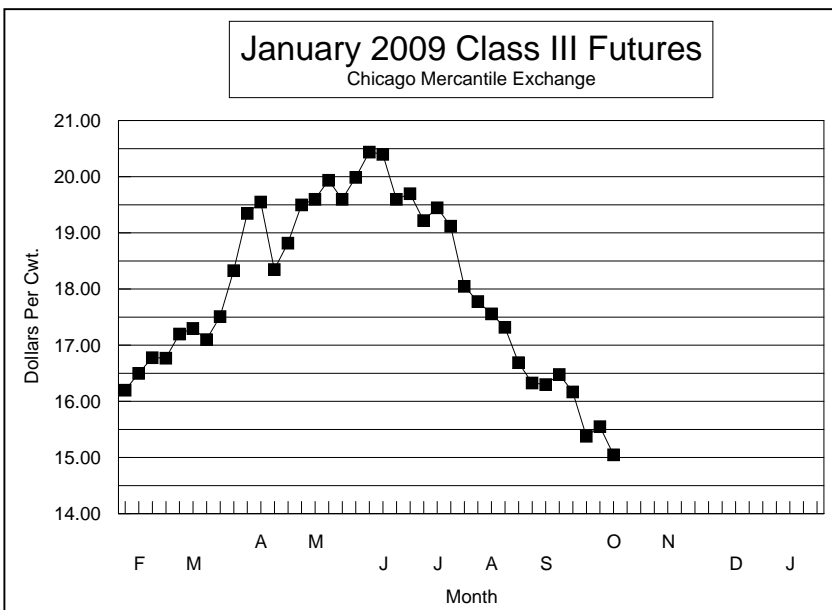
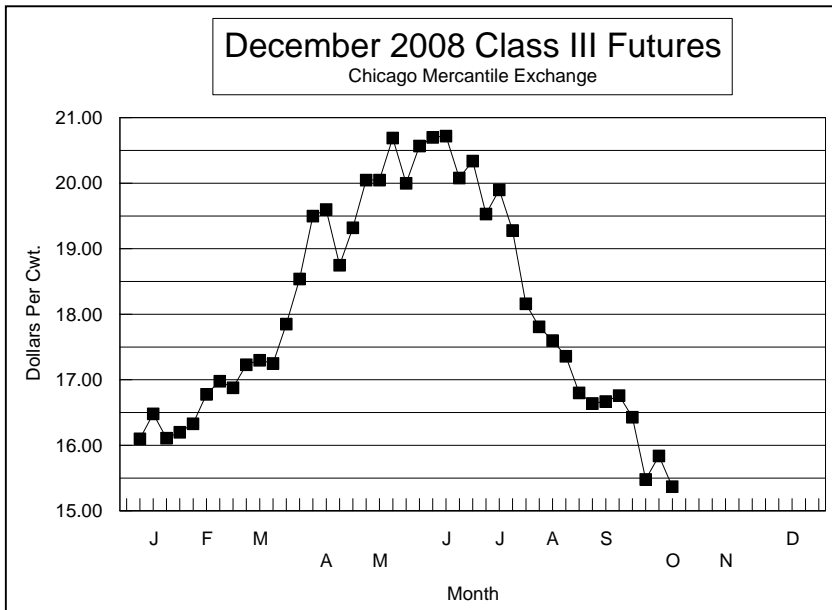
Example: It's Oct. 20 and Feb. Class III Milk Futures are trading at \$14.41. Local Feb. basis estimate is +\$2.00.

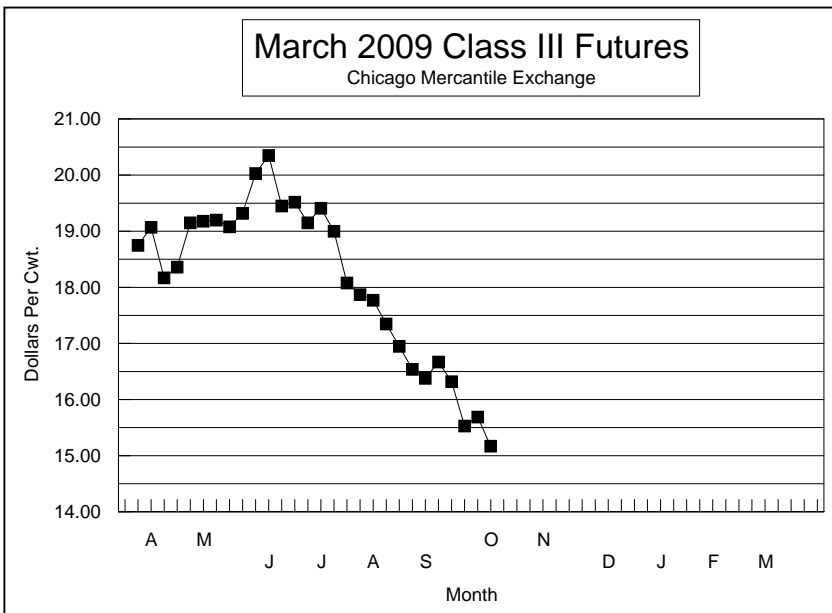
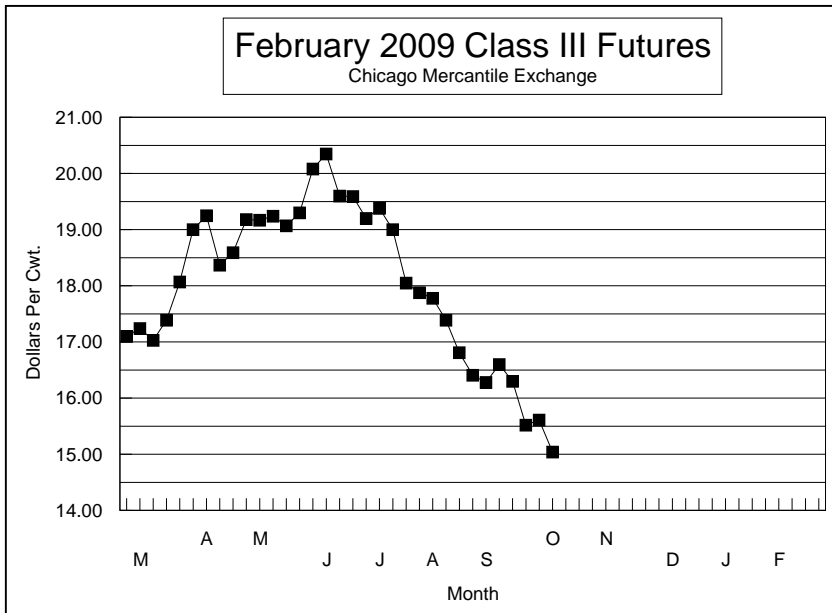
Then in February: If February Futures	=	\$15.75	\$14.25	\$12.75	
and actual blend price	=	17.75	16.25	14.75	
Sample Strategies (Executed 10/20)		Realized Prices for February Milk			
1) Sold Futures	@	14.41	\$16.41	\$16.41	\$16.41
2) Bought Put	\$13.25 @	0.30	17.45	15.95	14.95
3) Bought Put	\$13.75 @	0.47	17.28	15.78	15.28
4) Bought Put	\$14.25 @	0.68	17.07	15.57	15.57
5) Synthetic Put:					
Sold Futures	@	14.41			
Bought Call	\$15.50 @	0.37	16.29	16.04	16.04

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

Example: It's Oct. 20 and Mar. Class III Milk Futures are trading at \$14.40. Local Mar. basis estimate is +\$2.00.

Then in March: If March Futures	=	\$15.75	\$14.25	\$12.75	
and actual blend price	=	17.75	16.25	14.75	
Sample Strategies (Executed 10/20)		Realized Prices for March Milk			
1) Sold Futures	@	14.40	\$16.40	\$16.40	\$16.40
2) Bought Put	\$13.25 @	0.38	17.37	15.87	14.87
3) Bought Put	\$13.75 @	0.56	17.19	15.69	15.19
4) Bought Put	\$14.25 @	0.78	16.97	15.47	15.47
5) Synthetic Put:					
Sold Futures	@	14.40			
Bought Call	\$15.50 @	0.45	16.20	15.95	15.95





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