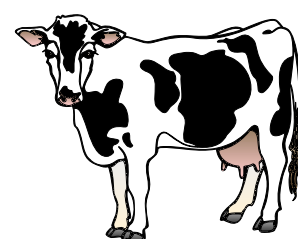


The Milk Market News



December 18, 2008

Price Outlook - The Southeast Uniform milk price for November was \$19.21, up 26 cents from October, and \$4.25 lower than November 2007. November's Class III price was \$15.51, down \$1.55 cents from October, and \$3.71 lower than November a year ago. The Class IV price was down \$1.37 from October to \$12.25, and \$8.15 under November 2007. Class I utilization was 67.96%, down 5.66% from October. The butterfat price was \$1.8125, down 1 cent from last month. The November Class I price was \$21.13. The December Class I price is \$19.23, down \$1.90 from November and \$3.91 lower than December 2007. USDA reported the 23-state milk production up 1.4% in November over November 2007. October production was revised to up 1.6%, +0.1% from the previous estimate. USDA again lowered its 2008 Class III milk price forecast. The projection is now \$14.50 to \$15.30. Today, Class III futures prices averaged \$13.41 for 2009, well under the USDA projection. The week ending December 12 brought the 3rd worst ever crash in cheese prices. January through April Class III futures have dropped \$1.50 over the last six trading days. Class III futures prices on December 18: December \$15.55, down 4 cents from a month ago; January 2009 \$12.29, down \$2.20; February \$12.35, down \$2.15; March \$12.38, down \$2.12; April \$12.75, down \$1.85; May \$12.99, down \$1.92; June \$13.00, down \$2.30; July \$13.50, down \$2.04; August \$14.09, down \$1.75; September \$14.32, down \$1.66; and October \$14.45, down \$1.55. Near record volumes of milk went to cheese in October. October total cheese production was up 2.0% over a year ago, while cheddar production was up 3.8%. Butter production was down 0.3% from a year ago, while NDM/SMP production was up 14.2%. The Commodity Credit Corporation has been buying powder over the last month, mostly from western states. Retail milk prices declined in October for the third straight month, down 1.9% from September, but increased 1.0% in November. August through October fluid milk sales were up 1.0% from a year ago, the first improvement after 14 months of declines. October dairy cow slaughter was 236, 200 head, the highest monthly number in a year. July-October slaughter was 894,500, the most for that period since 2003.

CWT Herd Retirement - Cooperatives Working Together (CWT) has announced preliminary results of its latest herd retirement. Bids were accepted from 184 herds, expected to remove 61,078 cows and 1.2 billion pounds of milk. These numbers represent the second largest number of cows and the most milk from the herd retirements. Coupled with the retirement earlier this year, a total of 85, 663 cows and 1.637 billion pounds of milk have been removed this year. The latest retirement will also remove 1, 548 bred heifers for a total of 1,823 for the year. Scott Brown, University of Missouri agricultural economist, reports CWT raised the all-milk price by 71 cents per hundredweight during 2008. He said the herd retirements added 57 cents and the export assistance program added 14 cents.

Southeast Federal Order Prices						
Month	Uniform Price	Class I Price	Class III Price	Class IV Price	Percent Class I	Butterfat (Pound)
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
Oct 08	18.95	19.33	17.06	13.62	73.62	1.8230
Nov 08	19.21	21.13	15.51	12.25	67.96	1.8125

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

Example: It's Dec.18 and Mar. Class III Milk Futures are trading at \$12.38. Local Mar. basis estimate is +\$2.00.

Then in March: If March Futures	=		\$13.75	\$12.25	\$10.75
and actual blend price	=		15.75	14.25	12.75
Sample Strategies (Executed 12/18)			Realized Prices for March Milk		
1) Sold Futures	@	12.38	\$14.38	\$14.38	\$14.38
2) Bought Put	\$11.00 @	0.14	15.61	14.11	12.86
3) Bought Put	\$11.75 @	0.34	15.41	13.91	13.41
4) Bought Put	\$12.25 @	0.56	15.19	13.69	13.69
5) Synthetic Put:					
Sold Futures	@	12.38			
Bought Call	\$13.50 @	0.24	14.39	14.14	14.14

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

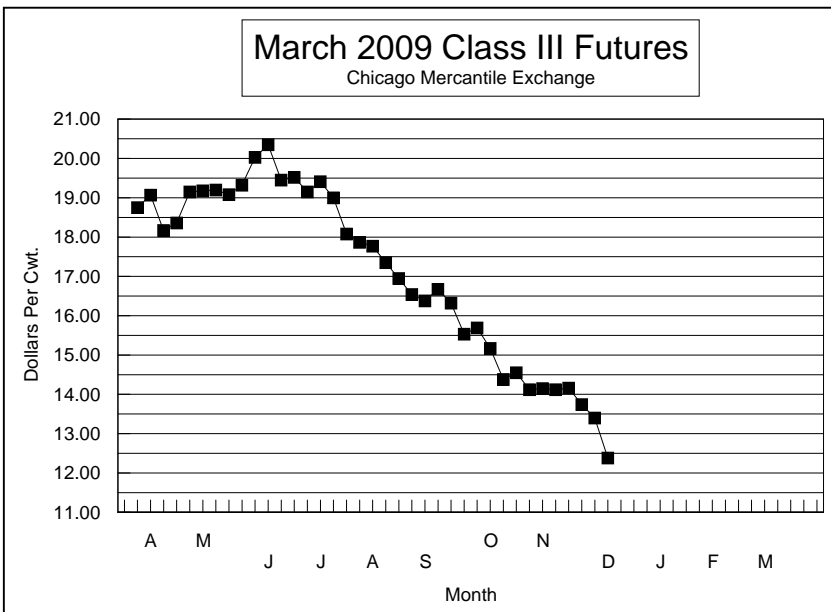
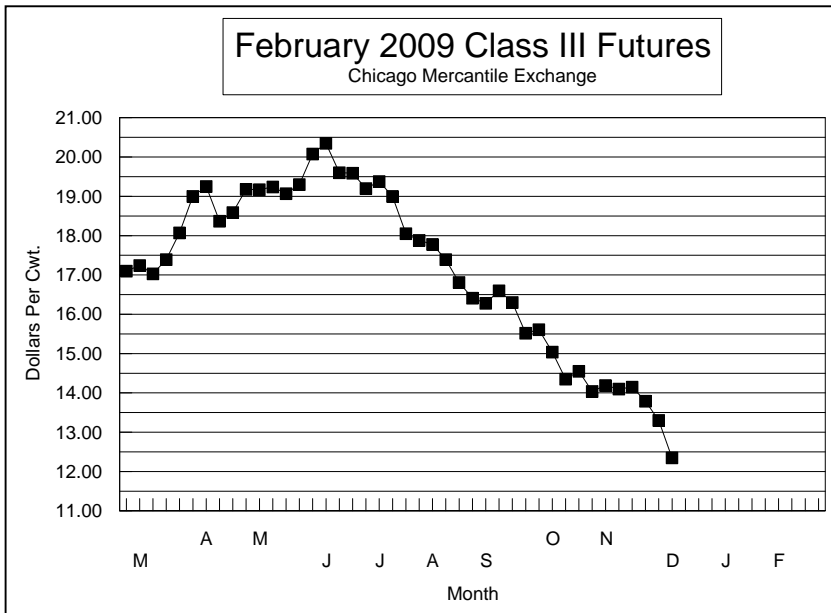
Example: It's Dec.18 and Apr. Class III Milk Futures are trading at \$12.75. Local Apr. basis estimate is +\$2.00.

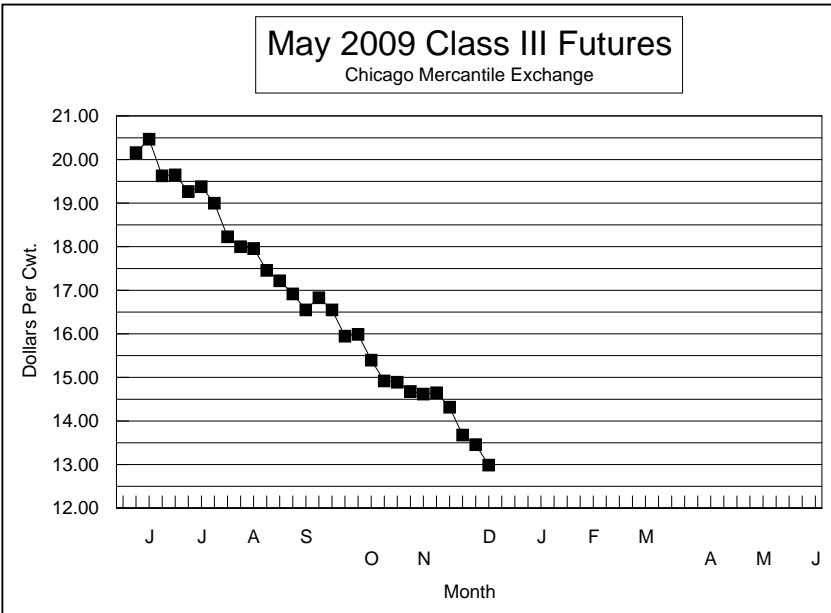
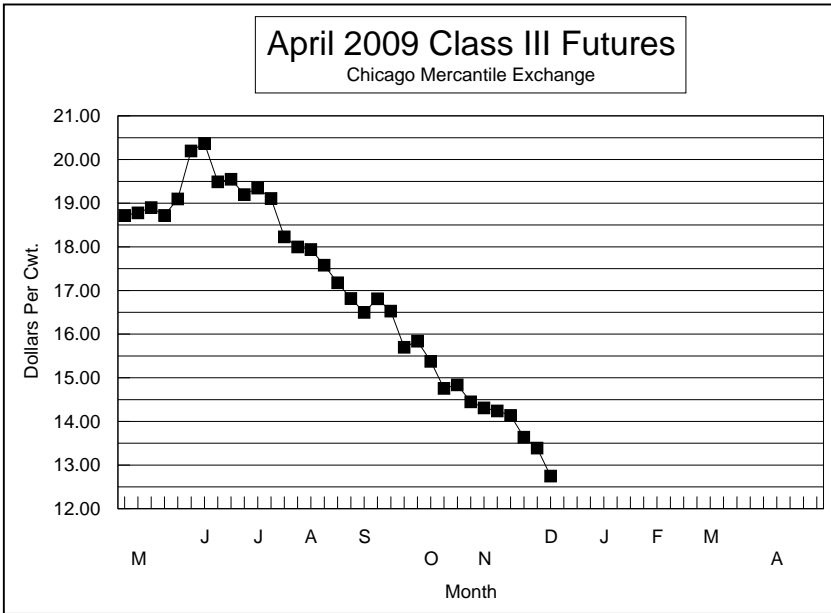
Then in April: If April Futures	=		\$14.25	\$12.75	\$11.25
and actual blend price	=		16.25	14.75	13.25
Sample Strategies (Executed 12/18)			Realized Prices for April Milk		
1) Sold Futures	@	12.75	\$14.75	\$14.75	\$14.75
2) Bought Put	\$11.75 @	0.31	15.94	14.44	13.44
3) Bought Put	\$12.25 @	0.49	15.76	14.26	13.76
4) Bought Put	\$12.75 @	0.72	15.53	14.03	14.03
5) Synthetic Put:					
Sold Futures	@	12.75			
Bought Call	\$14.00 @	0.29	14.71	14.46	14.46

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

Example: It's Dec. 18 and May Class III Milk Futures are trading at \$12.99. Local May basis estimate is +\$2.00.

Then in May: If May Futures	=		\$14.50	\$13.00	\$11.50
and actual blend price	=		16.50	15.00	13.50
Sample Strategies (Executed 12/18)			Realized Prices for May Milk		
1) Sold Futures	@	12.99	\$14.99	\$14.99	\$14.99
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 @	0.70	15.80	14.30	14.05
5) Synthetic Put:					
Sold Futures	@	12.99			
Bought Call	\$14.25 @	0.38	14.86	14.61	14.61





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