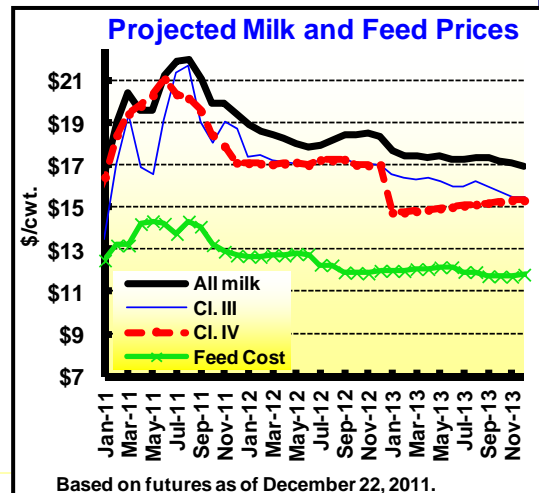




Dairy Market Report

Executive Summary

- ➔ CME cheese and butter prices are down since our last report. As of December 22nd:
 - blocks down 33½¢ to \$1.56¼/lb.
 - barrels down 37¢ to \$1.56/lb.
 - butter down 19½¢ to \$1.59½/lb.
 - NASS powder is \$1.44/lb, down 5¢.
- ➔ Outlook: Dairy prices fell faster than expected. Production growing faster than U.S. demand. After strong 2011, how much weaker will 2012 be? U.S. skim solids disappearance up 1.2% in 3 months ending September; butterfat up 1.5%.



The Dairy Market Report is created for Dairy Management Inc.



The Nutshell

Production v. last year

- Sept. Cheese ↓ 0.5%
- Oct. Cheese ↑ 1.7%
- Sept. Butter ↑ 20.7%
- Oct. Butter ↑ 19.6%
- Aug. NDM+SMP ↑ 10.0%
- Sept. NDM+SMP ↑ 8.0%
- Sept. Whey ↓ 7.5%
- Oct. Whey ↓ 7.0%
- October Milk ↑ 2.1%
- November Milk ↑ 1.8%

Prices

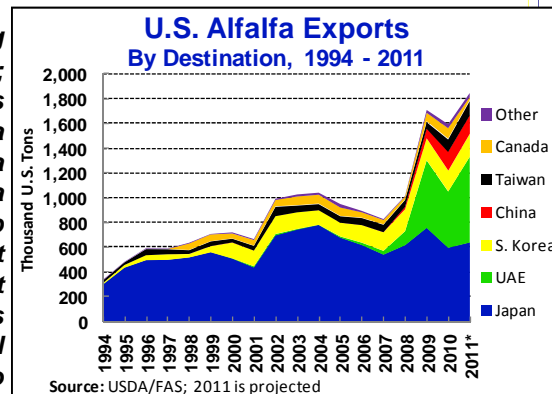
NASS:	Oct.	Nov.
Cheddar	1.75	1.84
Whey	0.62	0.64
Butter	1.79	1.78
NDM	1.51	1.45
Milk:	Oct.	Nov.
CI. III	18.03	19.07
CI. IV	18.41	17.87
All	19.90	19.90

Market Outlook

U.S. Dairy prices have declined as anticipated—and then some—as the holiday buying season ends and milk production has kept ahead of growing domestic demand. Recent figures from USDA indicate that net dairy income in 2011 overall will be quite healthy, spurring continued milk production as we enter what is supposed to be the down year in the 3-year dairy cycle we’ve seen over the last decade.

Export growth has slowed, and U.S. prices are lower to match international competition from growing production in Oceania and Europe. The strengthening dollar and a ‘gloomy’ international economic outlook is likely to dampen overseas demand growth in 2012. In addition, a shift in global interest from whole milk powder to skim milk powder is contributing to weaker butterfat values.

Alfalfa hay exports to China are not driving high alfalfa prices, as some have suggested; lower production is. Customs data shows that Japan has long been our largest alfalfa buyer, with South Korea, China, and Canada lagging far behind. The big increase in alfalfa shipments has been going to the United Arab Emirates, which has gone from buying just 30,800 tons in 2007 to our second largest customer, receiving nearly half a million tons in the first 10 months of 2011. But the total increase in U.S. alfalfa exports from 2007 to 2011 is less than a million tons. This pales beside the 5 million tons of U.S. alfalfa production lost in the same period, as nearly 2 million fewer alfalfa acres have been harvested.



The Cooperatives Working Together program (CWT) has been renewed through 2013, following the commitment of producers and cooperative associations representing over 70% of U.S. milk marketings. CWT has budgeted \$35 million for 2012 to continue assisting exports of selected U.S. dairy products to selected markets. In 2011 through December 8, CWT committed to assist the export of 91.5 million lbs. of cheese; combined with commitments made in 2010, CWT has already committed to assist 129 million pounds of cheese scheduled for export in 2011 and early 2012, equivalent to about 1.3 billion pounds of milk. dmr

Cheese and Whey

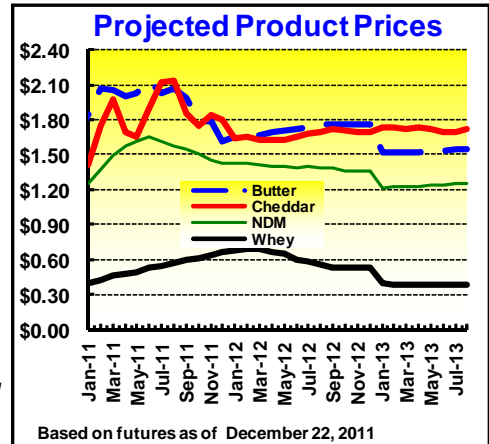
Total U.S. [cheese production](#) (excluding cottage cheese) was 896 million lbs. in October, up 1.7% from a year ago; and nearly unchanged from September, on an average daily basis. American types totaled 352 million lbs. in October, down 1.2% from last year and up 0.6% from September, on an average daily basis. Italian types were 382 million lbs., up 2.3% from last year and up 0.3% from September, on an average daily basis. For the year to date through October, total cheese production was up 1.6% from a year ago.

USDA-reported [stocks](#) of American cheese began December at 586 million pounds, down 6% from last year, and down 29 million pounds from November 1. Stocks of other cheese, including Swiss, started December at 384 million pounds, down 4% from a year ago, and down 14 million pounds from November 1. Total cheese stocks were 971 million pounds, down 5% from last year and down 43 million pounds from November 1, compared to a ten-year average November decline of 27 million pounds. December 1 stocks were equal to 33 days of U.S. cheese production, 2 days more than the ten year average.

[Commercial disappearance](#) of American cheese in the three months ending with September was 1.021 billion pounds, down

4.8% compared to a year earlier, as reported by USDA. Other types were up 1.2% to 1.647 billion pounds. Commercial disappearance of all cheese was down 1.2%: **including a 1.4% decline in domestic disappearance and a 3% increase in exports (which is still only 4% of U.S. cheese disappearance).**

As of December 22, the [CME](#) block cheddar cheese price was down 33½¢ to \$1.56¼ and barrel cheese was down 37¢ per pound from our last report to \$1.56. **This corrects the 'inversion' noted last month.** December 22 Class III futures projected cheese prices

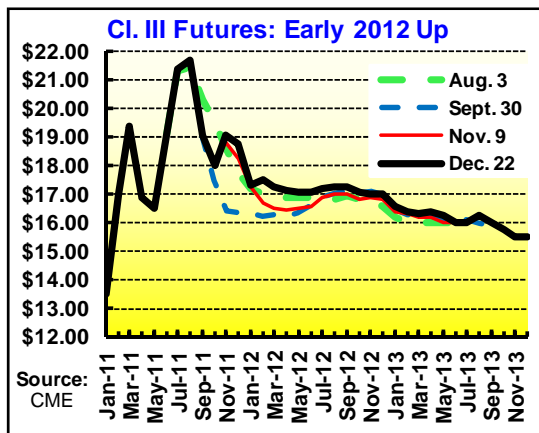


have totaled 478 million pounds, consuming over 4.8 billion pounds of milk. The [retail price](#) of cheddar cheese was \$5.63 in November, down 7¢ from October, and up 12% from a year earlier. Processed cheese averaged \$4.37 at retail in October, up a penny from October, and up 14% from a year ago.

October [production](#) of whey products overall was down 0.4% from last year. (See table.)

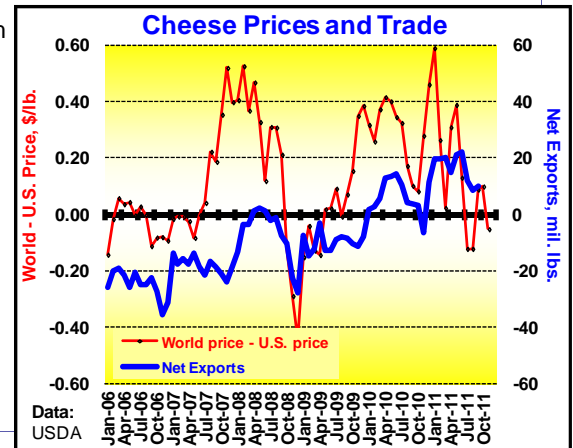
The manufacturers' [price](#) of whey was up slightly from our last report, at about 65¢ per lb. the week of December 10, according to NASS' survey. WPC-34 prices were up to about \$1.46, per USDA's [Dairy Market News](#). The [CME](#) dry

whey futures project average whey prices of 66¢ for the next 6 months, 53¢ for all of 2011, 61¢ in 2012, and 38¢ in 2013. The whey price in Western Europe is up to about 62¢ per lb. **dmr**



to average \$1.64 over the next six months (January through June), \$1.82 for all of 2011, \$1.67 for 2012, and \$1.70 in 2012. (See graph.)

U.S. cheese [exports](#) in October were 37 million pounds, up 22% from a year ago. This is over 4% of U.S. cheese production for the month. Imports were up 13% from last September, so that net exports were 6½ million lbs., twice what they were a year ago. U.S. cheese exports for the last 12 months



U.S. cheese stocks were drawn down by 43 million lbs. in November, compared to a 10-year average of 27 million lbs.

Whey Products				
Product	October Production		November 1 Maker Stocks	
	Mil. lbs.	Change v 2010	Mil. lbs.	Change v 2010
Whey, food	70.3	-7.0	37.7	-5.9
Whey, feed	6.2	167.3	4.4	27.0
WPC25-50	20.8	5.1	20.3	27.4
WPC50-91	16.1	1.5	17.9	16.1
WPI90+	5.2	-6.4	5.5	-20.7
Total	118.5	-0.4%	85.6	4.9%

Source: USDA/NASS

Butter

October U.S. [butter production](#) was 146 million lbs., up 20% from a year ago, and up 3% from September, on an average daily basis. Year-to-date production is up 16.8%.

December 1 [stocks](#) were 95 million lbs. This up 36% from a year ago and 16% above the 10-year average for December 1. Stocks fell 36 million lbs. during November (compared to the 10-year average November stock decrease of about 41 million lbs.)

[Commercial disappearance](#) of butter in the three months ending with September was 448 million pounds, up 12% from a year ago; **again, all of this was increased domestic demand, plus 10½ million lbs. to**

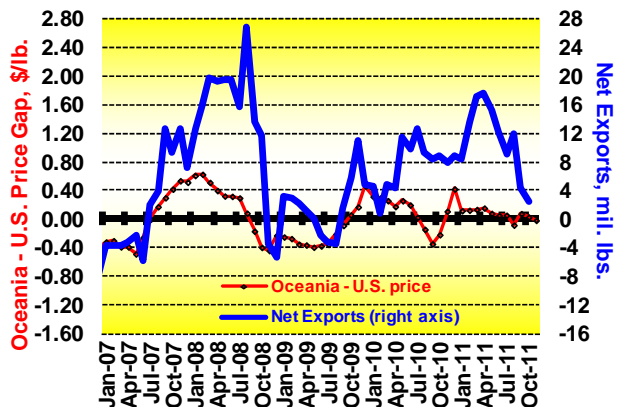
offset lower butter exports for the same three months. For all milkfat, commercial disappearance was up 1.5%.

The [retail](#) butter price was \$3.32 per lb. in November, down 1% from 2010 and down 34¢ from October. The [CME](#) butter price was down 19½¢ since our last report, to \$1.59½ on December 22. Futures project NASS butter at \$1.68 for the six months through June, \$1.95 for all 2011, \$1.72 for 2012, and \$1.54 for 2013.

U.S. net butter exports totaled 2½ million lbs. in October, down about 70% from a year earlier. International butter prices are down again to

about \$2.08 in Western Europe and \$1.71 in Oceania, according to USDA's [international](#) report. **dmr**

Butter Prices and Trade



Dry Milk Powders

U.S. [skim milk powder production](#), including protein-standardized "skim milk powders" was 143 million lbs. in October, up 8.0% from a year ago, and down 1% from September, on an average daily basis. November 1 manufacturers' stocks of nonfat dry milk (excluding protein-standardized products) were 144 million lbs., up 16½% from last year. These fell 7 million pounds in October.

Since our last report, the [CME](#) price of extra grade nonfat dry milk is down 10¢ to \$1.48, and grade A is up 1¼¢ to \$1.45 per lb. on December 22; this compares to the

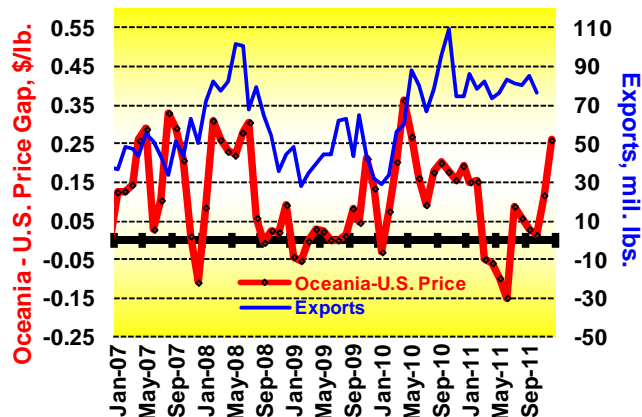
average surveyed U.S. manufacturers' [price](#) of \$1.44 for the week of December 10.

October [exports](#) of nonfat dry milk and skim milk powders totaled 76 million pounds, down 31% from a year earlier, but still equal to 53% of U.S. production.

[USDA](#) reports skim milk powder up to about \$1.59 in Oceania, but down to about \$1.38 in Western Europe.

[Commercial disappearance](#) of nonfat dry milk (including exports, but excluding modified "skim milk powders") in the three months ending with September was

NDM/SMP Prices and Trade



391 million pounds, down 1.2% from a year ago; for all skim solids, commercial disappearance was up 1.2%. **dmr**

Yogurt, Ice Cream, and Fluid Milk

U.S. [yogurt production](#) in October was 346 million pounds, up 7.6% from last year, and down 14% from September, on an average daily basis. For the year to date, production is up 3.1%.

October [ice cream production](#) was up 4.9% from last year to 92 million gallons, and ice cream mix production was up 2.2% to 52 million gallons. The total is down 2.1% for the year to date. The average [retail](#) ice cream price was

\$5.22 per ½-gallon in November, up 16% from last year, up a penny from October.

[Fluid milk sales](#) for October were down 1.3% from a year ago (calendar adjusted), when the [retail](#) price of whole milk was up 9%, to \$3.62 (down 9¢ from September). Fluid sales are down 1.5% for the year to date. **dmr**

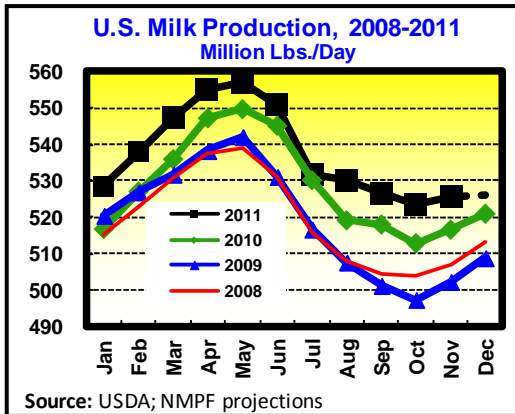
U.S. Fluid Milk Sales

Product	September 2011		October 2011		Year to Date	
	Mil. lbs.	%	Mil. lbs.	%	Mil. lbs.	%
Whole Milk	1,157	-2.2	1,175	-2.3	11,767	-2.1
Reduced Fat Milk (2%)	1,552	n/a	1,569	n/a	15,590	n/a
Low Fat Milk (1%)	663	n/a	667	n/a	6,236	n/a
Fat-Free Milk (Skim)	683	n/a	684	n/a	6,829	n/a
Flavored	431	n/a	437	n/a	3,680	n/a
Buttermilk	40	4.5	41	-1.0	392	1.0
Total (Including 'other')	4,528	0.9	4,593	-1.6	44,538	-1.5
Total (calendar adjusted)	4,474	-2.3	4,653	-1.3	44,596	-1.5
Conventional	4,346	-1.3	4,414	-2.1	42,823	-2.1
Organic	182	8.9	179	12.6	1,715	15.6

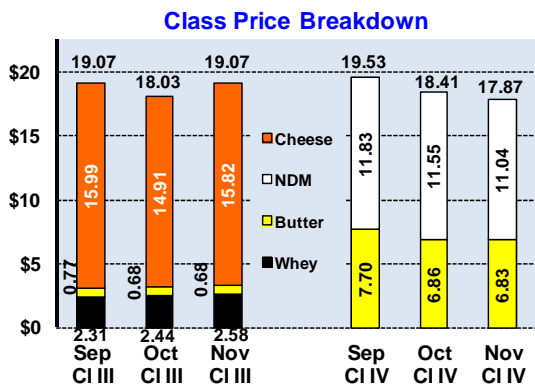
Source: USDA/AMS, Dairy Market News

Milk and Feed

November [milk production](#) in the U.S. was 15.78 billion lbs., up 1.8% from a year ago. This follows substantial increases in August (2.1%), September (1.6%), and October (2.1%). November's increase was the product of this year's growth in cow numbers (1% more than a year ago) and a 0.8% increase in milk per cow. USDA still [projects](#) milk output to grow 1.7% in 2011 overall, which looks about right. (See graph.) **For 2012, USDA projects a 1.2% increase in production. This is consistent with current and projected margins.**



November's [Class III](#) price was announced at \$19.07, up \$1.04 from October (and exactly back to the September price), and up \$3.63 from last November. December's Class III is



projected at \$18.70. **This begins to reflect the recent decline in cheddar cheese prices, which will be more fully reflected in the new year.** Class III [futures](#) prices for the next six months (January through June) averaged \$17.22 per hundred-weight on December 22, and they project averages of \$18.36 for 2011, \$17.19 for 2012, and about \$16.05 for 2013. The Class III price is the minimum price paid for cheese milk pooled on Federal orders.

November's [Class IV price](#) was \$17.87, down 54¢ from October, and up \$1.19 from last year. December is projected to be down again to about \$17.10. [Futures](#) markets project Class IV milk to average about \$17.00 for the next six months, \$19.05 for 2011, \$17.10 for 2012, and \$15.00 for 2013. The Class IV price is the minimum price for pooled milk used to make butter or milk powder.

The Class II price was \$19.26 in November, down 15¢ from October. December is projected at \$18.10. This is the minimum price for pooled milk used to make soft dairy products and in most food processing.

December's [Class I](#) base price is \$18.47, up 2¢ from November; January's Class I base price is projected at about \$18.90, then Class I base prices are projected to fall to below \$17.50 by April and remain below \$17.50 through the rest of 2012 and below \$16.50 through most of 2013. The Class I base price plus a location differential is the minimum price processors pay at the plant for bottling milk pooled on a

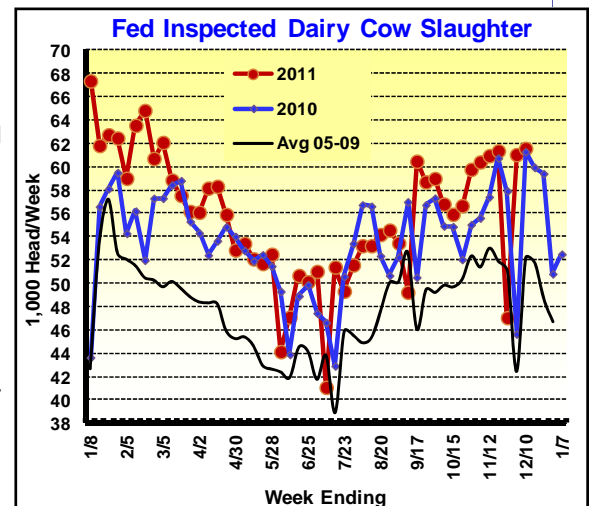
Federal Order Component Prices

\$/lb.	Butterfat	Protein	Other Solids	Nonfat Solids
Aug.	2.2985	3.8305	0.3811	1.3920
Sept.	2.2005	3.0282	0.4053	1.3623
Oct.	1.9592	2.9211	0.4286	1.3297

Federal order.

November's [all-milk price](#) was estimated at \$19.90, unchanged from October. December is projected at \$19.40. The futures markets project the all-milk price to average \$18.33 for the next 6 months, \$20.05 in 2011 overall, \$18.30 in 2012, and \$17.30 in 2013. [USDA](#) now projects an average all-milk price of \$20.10 in 2011 and \$18.50 in 2012.

Feed costs: Corn, soy, and soymeal prices are down: near-month [corn](#) futures are \$6.17 per bushel (down 42¢ since our last report); [soy](#) is \$11.62 per bushel (down 14¢); and soymeal is \$298/ton (down \$5). Futures markets project annual averages for corn about \$6.00 in 2011 and in 2012, and \$5.75 in 2013; and for soymeal at about \$345 in 2011, \$305 in 2012, and \$315 in 2013. [USDA](#) now [forecasts](#) corn prices at \$6.40 per bushel in 2011/2012; and soybeans at \$11.70 per bushel and soymeal at \$295 per ton in 2011/12. **dmr**



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Dairy Management Inc.™ and state, regional, and international organizations work together to drive demand for dairy products on behalf of America's dairy farmers, through the programs of the American Dairy Association®, the National Dairy Council®, and the U.S. Dairy Export Council®.



The National Milk Producers Federation (NMPF) is a farm commodity organization representing most of the dairy marketing cooperatives serving the U.S.