



Milk Market News and Summary

February 6, 2010

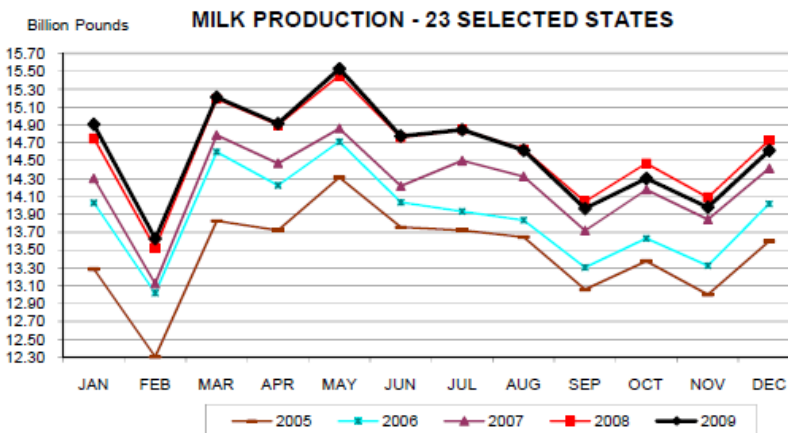
Dairy Forecasts make major correction from last month

January Class IV - \$ 13.85/cwt. Dn. \$1.16 from Dec. 09. -- Class IV projection for February is \$ 13.30
January Class III - \$14.50/cwt. Dn \$4.48 from last month. --- Class III projection for February is \$ 13.95.

DECEMBER MILK PRODUCTION (NASS): Milk production in the 23 major States during December totaled 14.6 billion pounds, down 0.8% from December 2008. Production per cow averaged 1,758 pounds for December, 29 pounds (1.7%) above December 2008. The number of cows on farms was 8.31 million head, 206,000 head (2.4%) less than December 2008, and unchanged from November 2009.

2010 MILK PRODUCTION FORECAST-Total milk production for 2009 was 189.3 billion lbs. down 0.4% from 2008. The USDA projects 2010 milk production at 188.4 billion pounds, which would represent a 0.4% further decline from the 2009 lower production. The U.S. dairy herd continues a moderate contraction that is likely to continue

throughout 2010. Lower expected feed prices should help boost production per cow that is expected to increase by a relatively robust 1.9 percent this year. The milkfeed price ratio is not expected to reach 2.5, a range that typically signals a steady state in dairy cow numbers, until the end of 2010. While the worst of the economic contraction is over, many producers are not in a financial position to consider herd expansion at this time and production in the west may continue to contract due to poor



01/19/2010 - Graph: DMN; Source: NASS - FEB 2008 ADJUSTED TO 28 DAYS

financial positions left over from 2008 and 2009. An Article headline in the Jan 29, issue of the Cheese Reporter reads "Banks Have Kept California Dairies Going, But May Soon Pull Trigger On UnPaid Loans." After a year of culling, the lower average age of the dairy herd should also help boost output per cow, since it is younger, more productive cows that will remain. The biannual "Cattle" inventory report shows an abundant supply of replacement heifers in the pipeline after last year's massive culling. On Jan. 1, there were 4.52 million replacements, up from 4.41 million heifers a year ago. That's the most since 1986. There were 49.7 replacements for every 100 cows, up significantly from 47.2 going into last year.

BUTTER-- the NASS butter price average for January was \$1.3610/lb. Dn. \$.0849 from the pervious month. The week ending Jan 30, NASS butter price was \$1.40/lb. about 4 cents above the January average price. The CME spot Butter price on February 4 was \$1.3475. Both the most recent NASS price and the CME price indicating a steady market going forward. The butter price is forecasted to be \$1.36/lb for February 2010.

NONFAT--The January average NASS price was \$1.1929/lb. Dn. \$.0929/lb from the previous month's average price. The January 30th week ending NASS nonfat price was \$1.13/lb. roughly 6 cents below the January average. The CME spot price on February 4, 2009 was \$1.19/lb. for Grade A, indicating a weak market. The projected February Nonfat average price is \$1.08/lb.

The lower Class IV price for this month is largely due to the unexpected drop in nonfat prices in the west during the Week ending January 22. I have listed the California powder prices for the Month of January below:

This displays the weighted average price received
for nonfat dry milk and volumes sold by California processors.

January 29, 2010	\$1.0662	17,472,564
January 22, 2010	\$1.0542	33,654,052
January 15, 2010	\$1.3035	7,869,822
January 8, 2010	\$1.3333	6,722,823

As you can see the California powder price dropped from \$1.3035 to \$1.0542 on record sales volume of 33.7 million lbs. during the week ending Jan. 22. as reported by the Dairy Market News "The market correction was brought on by some large sales volumes at reduced pricing. The impact moved beyond those sales to other transactions as market prices gravitated lower". "sellers and buyers are trying to determine where the prices will begin to level off, with no clear answers and many questions on domestic and international supply and demand issues. Current international demand is slow for U.S. NDM."

The forecasted average nonfat price for February is \$1.07/lb.

Class IV Prices are significantly lower for 2010 than I reported last month.

Class IV forecast for 2010

Feb. \$13.30, March \$13.20, April \$13.32, May \$13.42, June \$13.88, July \$14.32, August \$14.45, September \$14.59, October \$14.95, November 14.81, December \$14.88

Happy Valentines Day

Dale Johnson.