



Monthly Milk Market Summary

January 4, 2010

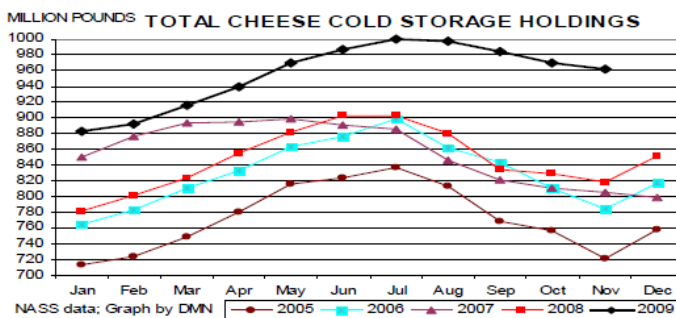
A number of factors will determine dairy's direction in 2010

Reduced domestic milk production points to higher prices in 2010, but demand in the United States has been negatively affected by layoffs and under-employment, and that kept many dairy product inventories from declining as much as they typically do in the fall. Poor weather in Oceania is crimping production levels there once again, increasing uncertainty over milk supplies worldwide. A similar situation helped push dairy commodity prices to record levels a couple of years ago. The potential does exist for exports to help U.S. dairy prices, but that activity will take time to develop, and will depend on the strength, or weakness of the US dollar.

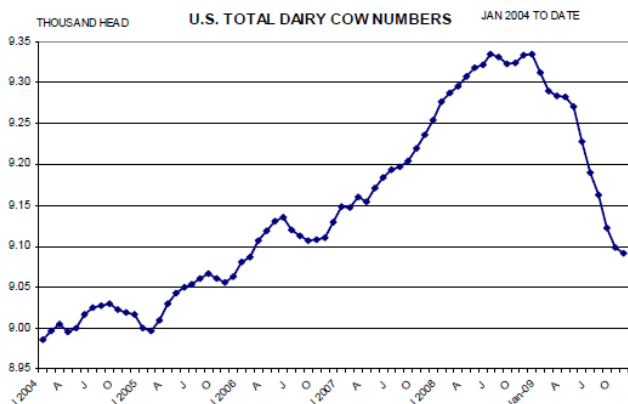
ANOTHER GOVERNMENT PROGRAM ACRONYM, December 17, 2009 - Agriculture Secretary Tom Vilsack announced the implementation of the new Dairy Economic Loss Assistance Payment (DELAP) program. The 2010 Agricultural Appropriations Bill authorized \$290 million for loss assistance payments to eligible dairy producers. Eligible producers will receive a one-time direct payment based on the amount of milk, both produced and commercially marketed, by their operation during the months of February through July 2009.

December Class IV - \$ 15.01/cwt. up \$1.39 from November. --- Class IV projection for January is \$ 14.70
December Class III - \$14.98/cwt. Up \$.90 from last month. --- Class III projection for January is \$ 13.99.

High cheese inventories have impacted short term Class III prices. Stocks of total cheese at the end of November exceeded the five-year average by 194.5 million pounds. The Class III price is once again below Class IV, and could remain so into the first quarter of 2010. This should make more milk available for butter, powder plants, a welcome relief for powder plants after the last 4 months of extremely limited milk supplies.



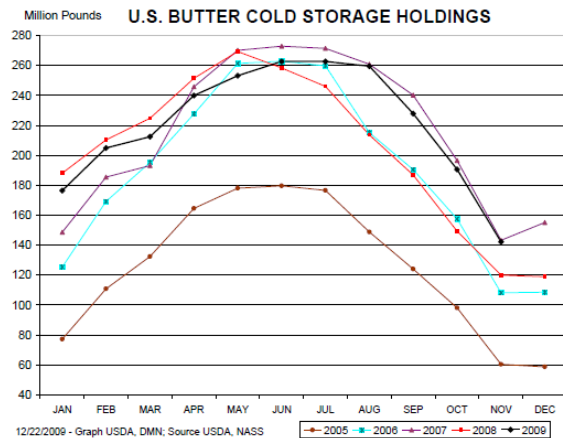
November Milk Production in the 23 major states totaled 14.0 billion pounds, down 1.0% from November 2008. Production per cow in the 23 major states averaged 1,679 pounds for November, 25 lbs above November 2008. The number of cows on farms in the 23 major States was 8.3 million head, 209,000) less than



November 2008 and 6,000 head less than last month. The majority of the decline in cow numbers and milk production continues in the West. Compared to a year ago November cow numbers were down 10.6% in Arizona, 10.8% in Colorado, 5.7% in New Mexico, 4.3% in California, 4.0% in Texas and 1.4% in Idaho. Poor returns over feed costs are negatively impacting milk per cow in some Western states, milk production was down as 10.7% in Arizona, 9.2% in Colorado, 5.4% in California, 1.6% in New Mexico and 0.4% in Idaho.

For many years we've been hearing about declining milk production in the Midwest, and the tremendous growth in the West. 2009 is the year that saw a shift in that trend, with many western states posting year-to-year declines, and production in many Midwest states on the rise. Going forward, we'll see how permanent that change is.

BUTTER-- the NASS butter price average for December was \$1.4459/lb. up \$.0642 from the previous month. The week ending Dec 26th NASS butter price was \$1.36/lb. about 8 cents below the December average price. The CME spot Butter price on December 31 was \$1.3275. Both the most recent NASS price and the CME price indicating a weak market. Butter stocks dropped during November, which is typical. Inventory levels recently have not been strong enough to keep CME butter prices from remaining above last year's levels. Stocks have started to build seasonally in December and that has pushed prices below the highs of the year. The butter price is forecasted to be \$1.32/lb for January 2009.



NONFAT--The December average NASS price was \$1.2858/lb. up \$.1738/lb from the previous month's average price. The December 26th week ending NASS nonfat price was \$1.33/lb. over 5 cents higher than the December average. The CME spot price on December 31 was \$1.37/lb. for Grade A. indicating we may be close to peaking on nonfat prices, for awhile at least. The projected January Nonfat average price is \$1.1.305/lb.

Forecasted Class IV Prices are slightly lower in the first quarter of 2010 than I reported last month.

Class IV forecast for 2010

Jan \$14.70, Feb. \$14.50, March \$14.50, April \$14.50, May \$14.50, June \$14.80, July \$15.00, August \$15.26, September \$15.45, October \$15.60, November 15.50, December \$15.40

HAPPY 2010
Dale Johnson.