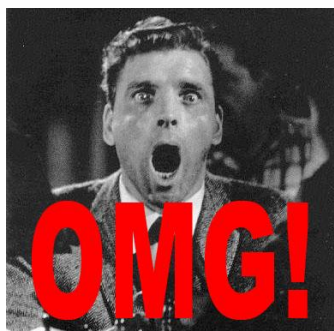




Milk Market News and Summary

September 5, 2010



August Class IV - \$ 15.61/cwt. Down \$0.14 from last month.

Class IV projection for August is \$16.80

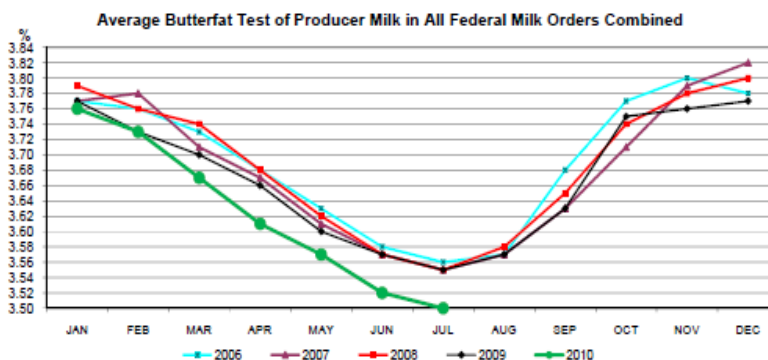
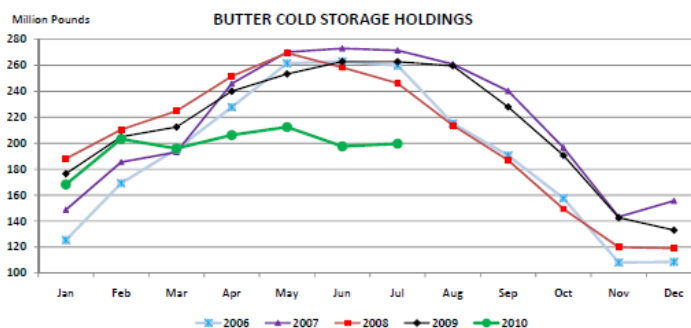
August Class III - \$15.18/cwt. Up \$1.44 from last month.

Class III projection for August is \$14.80

JULY MILK PRODUCTION (NASS): Milk production in the 23 major States during July totaled 15.3 billion pounds, up 3.0% from July 2009. Production per cow for July was 3.22% above July 2009. The number of cows on farms for July 2010 was 8.37 million head, 26,000 head less than July 2009, but 19,000 head more than June 2010.

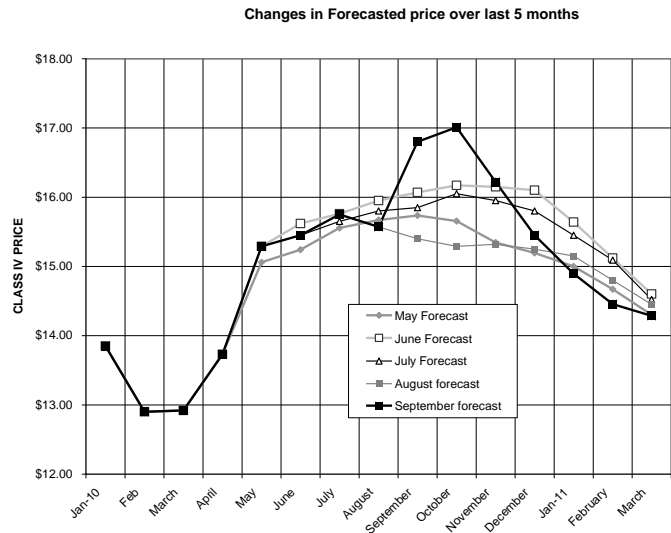
BUTTER-- the NASS butter price average for August was \$1.8508/lb. up \$0.1133 from last months average price, the week ending August 28th, NASS butter price was \$1.9659/lb., 11 cent higher than July's average price. The CME spot Butter price on September 3 was \$2.225. Both the NASS weekly price and the CME price indicate a significantly higher market going forward. The NASS average butter price for September is forecasted to be \$2.12/lb.

On July 31, U.S. cold storage holdings of butter totaled 199.6 million pounds, 1% more than June, but 24% less than last year. Butter production was 111.0 million pounds in July, 2.9% below July 2009 and 5.3% below June 2010, down for the 12th straight month. One reason for this butter shortage is the decline in average butterfat of producer milk, as shown in the graph at the right. When manufacturing low fat dairy products these lower fat levels reduce surplus fat leaving less fat for cream sales and the butter churn.



NONFAT--The August average NASS price was \$1.1557/lb. down \$0.072 from the previous month's average price. The August 28th. week ending NASS nonfat price was \$1.1413/lb., \$0.0144 cents lower than August average. The CME spot price on September 3, 2010, was \$1.225/lb. for Extra Grade Nonfat. Prices of Nonfat have bottomed and futures prices show significant increases in the coming months. The projected August Nonfat average price is \$1.17/lb. July NDM production, totaled 131.8 million pounds, 1.0% below July 2009 and 3.2% below June 2010

This month's Class IV forecast show A huge increase in the September and October class IV price, as compared with last months forecast. The graph on the right shows my previous months forecasted prices from May to my current September forecast. You can see that last months forecast indicated prices had peaked and were beginning to trend lower through the end of 2010. In fact the August Forecast projected the lowest September Class IV price of any previous forecast. My latest September forecast is projecting an increase of almost \$1.20/cwt. above the August class IV price.



So what has changed in the past month that would lead to this new forecast? That is what I am struggling with, why didn't I see this coming earlier? Here is what I can tell you.

- Butter stocks are a 5 year low, (but this has been the case now since May). The market is now concerned about price and availability of holiday supplies, and this is driving prices even higher than expected.
- Even though milk production is up, Fat tests are down (see graph on other page) leaving less fat available for other markets.
- Milk production continuing to decrease on its typical seasonal cycle, this further reduces available supplies.
- NDM appears to have found a bottom, with future months showing price increases. Last months NDM forecast projected prices to fall through November.
- One reason why August Class IV was lower than July was that the NASS average nonfat price was down 7 cents/lb. from the previous month that more than offset the 11 cent increase in the Butter price.
- For September it looks like the Butter price will continue to increase, while the NDM price is expected to stabilize or possibly increase a few cents.
- In the latest Fonterra Global Dairy Trade Auction on September 1, 2010 all prices were higher that the previous month as shown in the table below. Note that November WMP is up 24% from last month's auction.

Price Changes from Previous Event

Changes in price indices	Contract 1 (Nov10)	Contract 2 (Dec10- Feb11)	Contract 3 (Mar11- May11)	All Contracts
Anhydrous Milk Fat (AMF)	5.5%	10.1%	16.1%	9.5%
Butter Milk Powder (BMP)	11.2%	9.4%	n.a.	10.6%
Skim Milk Powder (SMP)	15.7%	15.7%	16.4%	15.8%
Whole Milk Powder (WMP)	24.9%	17.7%	13.7%	18.8%
All products (trade-weighted)	19.6%	16.3%	14.9%	16.9%

Class IV forecast for the remainder of 2010 and first half of 2011

September \$16.80, October \$17.01, November \$16.22, December \$15.45,

2011

January \$14.90, February \$14.46, March \$14.29, April \$14.25, May \$14.16 June \$14.21

Dale Johnson.