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Class Prices

Federal Orders

February

III: 3.5%, $14.28/cwt.
IV: 3.5%, $12.90/cwt.

California February

4b: 3.5%, $12.95/cwt.
4a: 3.5%, $12.84/cwt.

Next week

California's April Class 1 milk prices will be announced March 10. USDA releases its monthly World Ag Supply & Demand Estimates report, including an updated dairy outlook, also on March 10. Latest dairy trade estimates are released March 11-12, with a feed outlook report issued on March 12. Check in for daily *DPW* news updates at www.dairybusiness.com.

This Issue

Was dairy's 2010 optimism premature?

Was dairy's optimism at the end of the 2009 leading to the **undoing of 2010?** Maybe so, suggests **National Milk Producers Federation's Roger Cryan,** writing in the February 2010 *Dairy Market Report.*

Dairy markets continue to decline. **Cash prices are down** from a month ago and **milk futures are down** for all months. Demand is lackluster: exports are back up, but nowhere near the levels of 2008. Milk production was down slightly in January, but **milk cow numbers were up for the first time in over a year.**

Rosy projections for 2010 relied on the milk supply falling in response to the huge 2009 dairy farmer losses. But **many farmers built equity and reduced debt during 2007-2008,** entering **2009 in a good position to weather a bad year.** They **are not in nearly so a good position to weather a bad 2010.**

Milk prices are modestly higher, but feed costs remain high, too. Those producers who buy their feed and were squeezed in 2008 could be squeezed again in 2010-2011 by milk-feed margins better than they faced in 2009, but as tight at those in mid-2002 to mid-2003. This squeeze will find some producers at the end of their credit.

The name of **National Milk Producers Federation's** (NMPF) **Cooperatives Working Together (CWT) subcommittee** was changed to the **Production Management subcommittee,** with its **role expanded to include a thorough review of supply-demand approaches,** as well as an examination of ways **to expand CWT's programs.** NMPF member representatives whose boards have endorsed a supply management approach will be given the opportunity to present those ideas. The subcommittee will develop pros and cons for each approach, making a recommendation to **NMPF's Strategic Planning Task Force**. The **NMPF board of director's spring 2010 meeting** is scheduled for March 8-9, in Arlington, Va.

While many **U.S. dairy farmers and organizations try to balance domestic milk supply/demand** as a means to improve the dreadful U.S. dairy economic picture, **others are seeking to build international markets.** *Dairy Profit Weekly* editor Dave Natzke was part of a U.S. dairy industry team participating in **a Middle East information mission in Dubai,** in the United Arab Emirates (UAE), Feb. 20-26. The trip included attendance at **Gulfood, the region's largest food trade show,** as well as **five days of meetings with dairy product and ingredient buyers.**

Among some of the challenges facing the U.S. dairy industry's attempts to export to the Middle East are:

- **distance and logistics add costs.**
- **Middle East companies would prefer to deal directly with U.S. companies,** but lower sales volumes and inexperience in world

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DPW TRENDS

Class prices

Product	Feb. 2010	Change from Jan. 2010	Change from Feb. 2009
California 4a	$12.84	-$0.91	+$3.44
California 4b	$12.95	+$0.23	+$2.84
Federal II	$15.65	+$0.43	+$5.40
Federal III	$14.28	-$0.22	+$4.97
Federal IV	$12.90	-$0.95	+$3.45

Cull cow slaughter

USDA's National Ag Statistics Service estimated **232,100 culled dairy cows were slaughtered** under federal inspection in **January, up about 900 head from December 2009,** but **48,900 less than January 2009.**

Milk-feed price ratio

The **February 2010 milk-feed price ratio** is 2.38, up from January's revised estimate of 2.31, according to USDA's "Ag Prices" report. It compares to **1.51 in February 2009.**

The index is **an indicator of milk income relative to feed costs,** representing the pounds of 16% mixed dairy feed equal in value to 1 lb. of whole milk.

The **February 2010 preliminary U.S. all milk price** was estimated at **$15.90/cwt., down 20¢ from January,** but $4.30 more than a year ago. **Corn averaged $3.45/bushel,** down 21¢ from January and 42¢ less than a year ago. **Soybeans,** at $9.40/bushel, were down 39¢ from January and 14¢ less than a year ago. **Alfalfa baled hay** was $111/ton, down $2 from January and $30/ton less than a year ago.

Ag education

According to published reports, **budget-cutting proposals could reduce agricultural education opportunities.** The **University of Georgia system is considering a plan to eliminate 4-H programs statewide** as a means to cut $6.4 million. The **University of Nevada-Reno announced plans to close 10 programs,** including its **College of Agriculture,** in about 18 months.

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markets mean **U.S. companies frequently use brokers.** Brokers representing both U.S. and EU companies often find financial benefits by steering purchasers to EU or New Zealand companies.

• **product mix.** The U.S. **dairy product price support program provides a safety net for nonfat dry milk and salted butter,** which steers production into those two products. Many **Middle East customers prefer unsalted butter, whole milk powder and anhydrous milkfat.**

• **other product specifications. Whey derived from U.S. yellow cheddar cheese** production causes discoloration in end-user products compared to **whey derived from white cheddar produced by other countries.**

• **lack of U.S. customer support** for marketing and product utilization.

• **EU companies use a central bank to provide financing/credit** to Middle East buyers. Most U.S. sales are cash, and the cash must arrive before the product is even shipped.

• **U.S. products are often "commodity" focused,** while **"branding" is important to the Middle East.**

Despite those challenges, the Middle East's **growing population and social changes** make it an attractive potential dairy export market. The population in the Middle East/North Africa region is forecast to reach 692 million by 2050, or more than double the current U.S. population. The **U.S. Dairy Export Council** worked with **41 U.S. companies in 2009** to export products to the Middle East, up from just 13 U.S. companies in 1999.

One question that surfaced several times: Why is the U.S. dairy industry using **New Zealand-based Fonterra,** a global market competitor, **as a major marketing agent/advisor?**

Fourth-quarter 2009 surveys of **Chicago, Minneapolis, Kansas City and Dallas Federal Reserve Banks district lenders** indicate ag credit conditions stabilized, but dairy and livestock producers continue to suffer. In the Chicago district, **Wisconsin was particularly challenged,** with over half of the respondents noting lower repayment rates, and more than 8% of the volume of Wisconsin banks' ag loan portfolios classified as having **major or severe repayment problems.** Almost 4% of district customers with operating credit would probably not receive new credit lines in 2010; **Wisconsin, at 11%, faced the highest level of troubled operating credit.**

A "**No Farms No Food" rally and lobby day** will be held March 15, in Albany, N.Y.

DPW NUMBERS

January dairy products

USDA's **January Dairy Products report** provided the following estimates (compared to December 2009 and January 2009, respectively):

• **Butter** – 162 million lbs.; +7.5%; -7.2%.

• **Mozzarella cheese** – 285.3 million lbs. -1.6%; +6.4%.

• **Total Italian-type cheese** – 363 million lbs.; -2.7%; +4.4% .

• **Cheddar cheese** – 266.6 million lbs.; +2.5%; -2.7%.

• **American-type cheese** – 347.7 million lbs.; -0.5%; -1.6%.

• **Total cheese** – 842.3 million lbs.; -2.3%; +2.2%.

Beginning this month, **USDA began reporting monthly domestic production** of **milk protein concentrate and whey protein isolate,** as well as Parmesan, Provolone, Ricotta and Romano cheeses, unsweetened, bulk condensed skim milk, dry whole milk stocks and dry skim milk-animal stocks.

Heifers imported from Canada

• ***Week ending Feb. 13:*** 412 head; ***year-to-date (Y-T-D) total*** is 2,394.

Dairy cow culls

• ***Week ending Feb. 6:*** 56,200 head; ***Y-T-D:*** 328,300, down 48,700 from a year ago.

NMPF tracks imports

National Milk Producers Federation's *Import Watch* tracks a number of dairy imports, finding 2009 volumes were generally lower than 2008, with **two notable exceptions: butter and cheddar cheese.** Imports of **casein and milk protein concentrate imports were at a five-year low,** as were butter substitutes.

Imports of butter surged during the second and third quarters and, despite falling in the fourth quarter, **were up 35% for calendar 2009** compared to 2008. **Cheddar cheese imports were up** over 2,000 metric tons compared to 2008, and 500 metric tons more than 2005 and 2006 levels. **Imports of American-type and Italian-type cheeses** were substantially lower in 2009.

Misinformed about HSUS

Seventy-one percent of Americans polled by the **Center for Consumer Freedom (CFC)** believe the **Humane Society of the United States (HSUS)** is an "umbrella group" for local humane societies; and 59% believe HSUS "contributes most of its money" to local organizations that care for cats and dogs. **CFC said the federal income tax return filed by HSUS** for the tax year 2008 showed less than 0.5% of the organization's budget consisted of grants to hands-on pet shelters, and that HSUS does not run a single shelter.

Dairy Profit Weekly subscription questions?

Call 800-334-1904, or e-mail: subscribe@dairybusiness.com.

This week on DairyLine
www.dairyline.com

Log on to **www.dairyline.com** to read – and hear – conversations with these dairy's newsmakers:

• **Market analyst Mary Ledman,** Principal of Keough Ledman and Associates, warned that **additional cheese capacity coming on line from Southwest Cheese** could put continued downward pressure on prices, but said active cheese trading means people are finding value in the market. **In contrast, butter is climbing.** Most people are **cautious about trading butter early in March** because they want to **maintain inventories through the Easter/Passover holidays,** and then build inventory for the second half of the year.

• **Vivian Godfrey**, marking her one-year anniversary as **CEO of MilkPEP,** said **the fluid milk promotion program will target two main groups** – mothers with children at home, and teen-agers. The message to mothers, using the "Building Strong Families" theme, features two 30-second TV commercials, one in Spanish. The "teens" campaign uses **"Milk Mustache" celebrities** on posters in schools, magazines and on the Internet.

DPW MARKETS

Dairy Replacements

$/head

Jerome, Idaho (Mar. 3)

Springers (top 150) 1,200 (top)	1,480

Thomasville, Ga. (Feb. 23)

Fresh cows (2-5 yrs.)	1,200-1,400
Springers (bred 5-8 mos.)	
(2-4 yrs. old)	1,200-1,350
Open heifers (400-500 lbs)	400-520
(500-600 lbs)	530-630
(600-700 lbs)	600-725
(700-900 lbs)	675-800
Heifer calves (1-7 days)	45-65

Springfield, Mo. (Feb. 23)

Fresh/open cows	1,175-1,200
(Crossbreds)	1,100-1,250
Cows (bred 7-9 mos.)	860-1,000
Heifers (bred 7-9 mos.)	1,000-1,320
(bred 3-6 mos.)	850-1,250
Open heifers (200-285 lbs)	285-385
(300-340 lbs.)	385-450
(420-490 lbs.)	510-560
(585-695 lbs.)	660-810
(710-820 lbs.)	725-810
Heifer calves	185-260
(small)	80-175
Crossbreds	100-160

Smiths Grove, Ky. (March 2)

Fresh cows (2-6 yrs.)	900-1,200
Springers (bred 5-8 mos.)	
(2-3 yrs. old)	1,010-1,340
(4-6 yrs. old)	880-1,020
Open heifers (225-250 lbs)	380-435
(325-375 lbs.)	450-510
Heifer calves (med.)	180-220
(med.-large)	230-290
(small)	60-150

New Holland, Pa. (March 3)

Fresh cows	1,200-1,425
Cows (bred 7-9 mos.)	1,100-1,300
Heifers (bred 7-9 mos.)	1,250-1,525
(bred 4-6 mos.)	1,000-1,325
(bred 1-3 mos.)	975-1,100
Open heifers (300-600 lb.)	550-625
(600-900 lbs.)	500-850
(Jersey-X)	450-525

Sulphur Springs, Texas (Feb. 25)

Fresh cows	800-1,325
Springing heifers	900-1,350
Heifers (breeding age)	650-850
(Small)	250-325
Calves	25-140

Prices for supreme & approved only. Holsteins unless otherwise noted.

CME Class III Futures

200,000 lbs.; $/cwt.

Month	2010 3/4	2010 2/25	2011 3/4	2011 2/25
Jan.		14.50*	14.56	14.70
Feb.	14.29	14.22	14.35	14.65
March	12.88	13.00	14.43	14.79
April	12.87	12.89	14.55	14.80
May	13.09	13.09	14.70	15.10
June	13.88	13.52	14.75	15.10
July	14.52	14.04	15.10	15.10
Aug.	15.05	14.65	15.10	15.34
Sept.	15.19	15.84	14.85	15.20
Oct.	15.19	14.90	15.40	15.60
Nov.	14.98	14.80	15.50	15.60
Dec.	14.96	14.74	15.60	15.60

* Actual Class III price

Nonfat Dry Milk/Whey ($/lb.)

	East/Central	West
Nonfat dry milk	1.08-1.10*	1.00-1.07*
Dry whey	.3650-.3875*	.3875-.42*
Animal feed whey	.22-.37	

* Most sales in this range

Source: ***USDA Dairy Market News*, March 4**

USDA/NASS prices/$/lb.

Week	Nonfat dry milk	Dry whey
Feb. 27	1.0448	0.3894
Feb. 20	1.0697	0.3946
Feb. 13	1.1417	0.3960

Order Class Prices – $/cwt

Federal orders

Month	I base	II	III	IV
Sept. '09	10.93	11.01	12.11	11.15
Oct. '09	12.38	11.93	12.82	11.86
Nov. '09	12.86	13.24	14.08	13.25
Dec. '09	13.99	14.25	14.98	15.01
'09 Y-T-D*	11.48	11.26	11.36	10.88
Jan '10	15.03	15.22	14.50	13.85
Feb. '10	14.84	15.65	14.28	12.90
March '10	14.34			

California order

Month	1 North	1 South	4a	4b
Oct. '09	13.75	14.02	11.54	12.69
Nov. '09	15.04	15.31	13.16	13.76
Dec. '09	16.04	16.31	14.76	15.04
'09 Y-T-D*	13.12	13.39	10.77	11.05
Jan. '10	18.22	18.49	13.75	12.72
Feb. '10	16.46	16.74	12.84	12.95
March '10	16.44	16.71		

Year-to-date average

Chicago Mercantile Exchange

	Cheddar Cheese Barrel ($/lb.)	Cheddar Cheese Block ($/lb.)	Butter Grade AA ($/lb.)
March 4	1.2500	1.3050	1.4400
Feb. 25	1.2975	1.3450	1.4050
Feb. 18	1.3875	1.4275	1.3800

USDA/NASS Cheddar Cheese

Week ending	U.S. Barrel ($/lb.)	U.S. Block ($/lb.)	MN/WI Barrel ($/lb.)	MN/WI Block ($/lb.)	Other Barrel ($/lb.)	Other Block ($/lb.)
Feb. 27	1.4661	1.4921	1.4623	1.5487	1.4706	1.4856
Feb. 20	1.5005	1.5059	1.5050	1.5825	1.4954	1.4989
Feb. 13	1.5098	1.5022	1.5163	1.5710	1.5035	1.4958

Grain Futures

March 4, 2009

	Corn $/bu	Soybeans $/bu	Soy Meal $/ton
Mar. '10	3.72	9.48	257.90
May '10	3.83	9.42	257.90
July '10	3.94	9.50	258.80
Sept. '10	4.01	9.35	256.50
Dec. '10	4.08	9.25*	249.90
Mar. '11	4.19	9.41	253.40
May '11	4.26	9.45	254.40
July '11	4.31	9.50	255.40
Sept. '11	4.25	9.44	255.40

Chicago Board of Trade *** Nov. '10**

Regional Feeds

March 3, 2010

	Cotton-seed $/ton	Soy 46-49% $/ton	Corn $/bu.
Madison, WI[1]	258	282	3.62
Zumbro Falls, MN[1]	268	290	3.50
Orangeburg, SC[1]	190	343	4.60
Okeechobee, FL[1]	229	341	4.57
Lynden, WA[2]	308	321	5.37
Turlock, CA[2]	289	329	5.12
Sulphur Springs, TX[2]	225	320	4.80
North Java, NY[2]	242	335	4.40

1/ F.O.B. prices 2/ Approx. delivered prices

*** Previous week NA = not available**

Distillers Dried Grain

March 3, USDA – ($/ton)

Eastern Corn Belt	100-127
Chicago	112-115
Lawrenceburg, Ind.	130
Nebraska	100-110
Minnesota	95-105
Kansas	100-125
Iowa	95-108
Northern Missouri	116-125
St. Louis	115-133
Wisconsin/E. Minnesota	mostly 100-105
California	153-158

MILC Projected Payments ($/cwt.)[1]

Month	FY 2009	FY2010
Oct.	0.00*	0.6030*
Nov.	0.00*	0.3735*
Dec.	0.00*	0.00*
Jan.	0.00*	0.00*
Feb.	1.5135*	0.00*
March	2.0056*	0.00
April	1.5863*	0.1988
May	1.4673*	0.2374
June	1.8411*	0.2137
July	1.5435*	0.0522
Aug.	1.6425*	0.00
Sept.	1.2420*	0.00

Projected as of 3/3/10 by NMPF (www.nmpf.org/milk_pricing/milc_payments)

** Actual payment*

Annual payment caps apply to fiscal year

Alfalfa Prices

For USDA's weekly hay price report, visit www.ams.usda.gov/mnreports/lswfeedseed.pdf.

DPW INDUSTRY

Exhibit space for the **International Dairy Foods Association** inaugural **International Dairy Show** is selling quickly. The show, expected to attract more than 350 exhibitors displaying new technologies in packaging, ingredients, equipment and services for dairy food processors, is set for **Sept. 13-15, in Dallas, Texas.** For more information, visit www.dairyshow.com.

Dean Foods Co. will convert its **Schepps dairy product line** to the **Oak Farms brand** in South Texas, rolling out a new advertising campaign on March 15. Oak Farms makes up more than 75% of Dean's branded white milk in South Texas. Schepps and Oak Farms branded products are produced in the same plant.

Nestle SA completed its $3.7 billion purchase of **Kraft Food's** frozen pizza business. The deal, announced last month, paved the way for Kraft to purchase British candy maker **Cadbury PLC.**

There's potential **good news for cheese sales. Domino's Pizza,** which owns or franchises more than 4,900 U.S. locations, projects U.S. same-store sales to increase 1%-3% this year, with international same-store sales expected to rise 3%-5%. **Domino's CEO David Brandon** said domestic same-store sales rose 0.9% for all of 2009, with most significant growth occurring in the fourth quarter, when the company launched a newly designed pizza line with more cheese.

"Rusty" Bishop, Wisconsin Center for Dairy Research director and UW-Madison professor of food science, will retire at the end of March, becoming **director of research and development at Schreiber Foods,** Green Bay, Wisc.

Wisconsin Cheese Originals, an organization dedicated to growing and promoting the Wisconsin artisan cheese community, is offering a $2,500 scholarship to help an aspiring dairy entrepreneur earn **a cheese-making license and make farmstead, artisan or specialty cheeses.** Applications are due March 15. Download applications from www.wisconsincheeseoriginals.com/about.php or phone 608-358-7837.

DPW WASHINGTON

USDA issued its final decision to **limit pricing exemptions for large "producer-handler" milk bottlers.** Under rule changes published in the March 4 *Federal Register*, the producer-handler definitions in all federal milk marketing orders will be amended so that **only farms with bottled milk sales of 3 million lbs. or less per month remain exempt** from the pooling provisions. Producer-handlers with sales more than that will be treated the same as other bottling operations and will have to pay Class I differentials into the shared producer revenue pool effective in their respective federal orders. **Each amended federal order** must be approved either by **two-thirds of producers supplying milk** to the order or by **producers who supply two-thirds of the milk to that order.** If approved, USDA will issue a final rule, probably in April or May. Visit www.ams.usda.gov.

Dairy Management Inc. CEO Tom Gallagher issued a statement regarding the **Memorandum of Understanding (MOU)** signed last December by the **Innovation Center for U.S. Dairy and USDA.** The agreement, signed in Copenhagen at the time of an international climate conference, has drawn controversy, with some interpreting it as an endorsement for federal and international "climate change" policies and an admission that the dairy industry is a major contributor to carbon emissions. **Gallagher said the goal of the MOU** is to provide the dairy industry, including producers, with **access to funds for innovative projects related to sustainability.** Many of those projects are already underway, **aimed at reducing costs, increasing revenue sources and providing another marketing advantage with consumers who are concerned about climate change.** He said the **Innovation Center's 2020 goal of a 25% carbon reduction was not part of the** agreement. Visit www.usdairy.com/sustainability.

A group of **U.S. Representatives** – mostly Democrats in manufacturing states – **co-sponsored a bill to repeal the North American Free Trade Agreement (NAFTA).** The bill requires the president to alert Mexico and Canada that the U.S. planned to exit the pact within six months after the law took effect. Rep. Gene Taylor (D-Miss.) said **NAFTA and other free trade agreements have led to a steep drop in U.S. manufacturing jobs.**

Citing melamine contamination of milk powder in China, **New York's Sen. Gillibrand** joined an effort to **extend country of origin labeling (COOL) to dairy products.** The bill, introduced last fall, extends the 2008 COOL requirement to milk, cheese, yogurt, ice cream and butter.

Fifty-six members of Congress, sent a letter to **Transportation Secretary Ray LaHood and U.S. Trade Representative Ron Kirk** asking that they address **tariffs imposed by Mexico on U.S. ag and manufacturing products.** Mexico **imposed import duties on more than 90 products** after Congress terminated funding of the cross-border trucking pilot program in the fiscal year '09 Omnibus Appropriations Act. The Obama Administration indicated a plan is being pursued to fulfill U.S. obligations to Mexico under NAFTA, but action has been slow, according to the **National Association of State Departments of Agriculture (NASDA).**

U.S. ag secretary Tom Vilsack commenced USDA's Trade Adjustment Assistance (TAA) for Farmers Program. The program is **available for producers of raw ag commodities** who can demonstrate – due to **a sizeable increase in imports** – a greater than 15% decrease in their national average price; the quantity of production; the value of production; or in cash receipts, when compared to the average of the three preceding marketing years. Petition deadline is April 14, 2010. Visit www.fas.usda.gov/itp/taa/taa.asp.

USDA's Office of Food Safety will hold **a public meeting,** March 23, in Washington D.C., to preview issues to be discussed at the **26th Session of the Codex Committee on General Principles**, set for April 12-16, in Paris, France. Codex develops food standards, guidelines and codes of practice to protect consumer health, ensure fair food trade practices and promote international coordination of food standards. Visit www.codexalimentarius.net/current.jsp?lang=en.

DPW *March 8, 2010*

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