

CME GROUP CASH MARKETS (11/05):

BUTTER: Grade AA closed at \$1.8800. The weekly average for Grade AA is \$2.1100 (-.0750).

CHEESE: Barrels closed at \$1.5100 and 40# blocks at \$1.4800. The weekly average for barrels is \$1.5635(-.1105) and blocks, \$1.5310 (-.1270).

BUTTER HIGHLIGHTS: The CME Group AA butter price declined sharply on Friday, November 5, shedding 27 cents to close at \$1.8800. This is the lowest price since early August. The market tone is weak. Butter demand is good ahead of holiday needs. Concerns about the declining butter market prices are evident in the market place, yet buyers need butter for upcoming holiday seasons. While concerned about declining inventory values, they also recognize they need to have adequate stocks on hand to satisfy customer needs. Retail and club store orders are good to heavy. Food service orders are increasing ahead of holiday needs.

Butter production is heavy to stay on top of orders and upcoming needs. There is a stronger pull for holiday, cream based items such as cream cheese, sour cream, whipped cream, eggnog, and similars. Cream multiples and overages are trending lower in all regions and offerings are available. September U.S. butter production totaled 110.5 million pounds, 16.7% higher than a year ago.

CHEESE HIGHLIGHTS: CME Group cheddar block and barrel prices continued to move lower on a weak market, with barrels dropping 15.50 cents and blocks 16.00 cents through the course of the week. Weekly average prices, with blocks at \$1.5310 and barrels at \$1.5635, have not been at these levels since July of this year. The block/barrel price relationship is still inverted. Current cheese production remains linked to manufacturing milk availability, which is steady to improving in areas of the Southwest and West, while cheese makers in some parts of the upper Great Plains report an ongoing shortfall in milk intakes. During September, cheddar cheese production totaled 259.4 million pounds, 1.8% below August production but 0.1% above production one year ago. Italian type cheese production totaled 365.3 million pounds, 0.4% below August but 5.5% above production of September 2009. Total cheese production for September totaled 878.6 million pounds, 0.4% above August and 4.3% above one year ago. On November 4, the Kansas City Commodity Office announced contracts were awarded for natural American cheese for throughout 2011.

Under Solicitation PCA-DNAC2-001, awards were made for various types of cheddar (barrels, blocks, shreds, cuts, and reduced fat shreds and cuts) with a maximum totaling 74,792,500 pounds. Differential prices per pound ranged from \$0.0875 - \$0.4277 and are based upon the delivery month as well as the applicable previous month's average of the CME Group's cash market price for block or barrel cheese trading, as reported in Dairy Market News.

FLUID MILK: Milk supplies are adequate for fluid sales across the country. Manufacturing demand is showing some weakness as cheese prices have lowered on the CME Group. Specialty cheese producers are continuing to fill holiday orders. Butter prices lowered this week and cream multiples are weaker across the country. Demand from cultured product manufacturers has helped to clear cream supplies as holiday orders are being processed. Specialty drying of high heat nonfat dry milk and kosher products has also increased for holiday needs.

DRY PRODUCTS: Nonfat dry milk prices are steady to weak across the country. Eastern and Central markets were lower, while Western sales were steady. Production is above year ago levels. Export sales are

helping to clear inventories as some domestic buyers are hoping for lower prices in the future before committing to new sales. High heat orders for the holidays are increasing. Dry buttermilk prices are steady to weak. Condensed buttermilk sales are active to fill Class II needs. Dry buttermilk is moving along seasonal needs with little added demand. Prices were unchanged for dry whole milk this week. Dry whey prices were steady to showing some firmness in the West. Supplies of whey are mostly committed to contracted needs with spot availability light. Negotiations for 2011 price levels are reported showing some firmness. Whey protein concentrate 34% is steady with some delivery delays reported due to tight inventories. Lactose prices are steady. Contract negotiations for 2011 are ongoing. Casein prices are reported unchanged.

INTERNATIONAL UPDATE (DMN): The November 2nd gDT session results came in along expected levels. For the nearby January 2011 period, prices and changes from the previous session are: anhydrous milk fat, \$5412/MT, +5.1%; buttermilk powder, \$2900/MT, -3.3%; skim milk powder, \$2925/MT, -0.1%; and whole milk powder, \$3516, +0.9%.

ORGANIC DAIRY MARKET NEWS (DMN): Retail advertisers again focused their ad placements on organic milk far more than organic yogurt. Organic milk ad placements were again dominated by ads for half gallons numbering 1940, which is a decline of 928, compared to the last report. This is followed by 906 ads for 8 ounce aseptic containers of organic milk, representing an 826 ad increase over the previous report. Gallon ads for organic milk totaled 701, which had no ads in the previous report. The national weighted average advertised price for half gallons of organic milk fell 9 cents to \$2.75. This is the third consecutive reporting decline in the past six weeks. During this time, the average price has declined \$.71 from the \$3.46 weighted average reported on September 24. The price range narrowed to \$1.00. The bottom of the price range remained unchanged at \$2.50 with the high of the range declining \$.39 to \$3.50. Analysis of advertised pricing reveals that the lower weighted average advertised price is driven by a concentration of prices lower in the range. The national weighted average advertised price for organic milk gallons increased 60 cents to \$5.59 from the report 4 weeks ago, when all gallons were advertised at \$4.99. The price range is \$1.00 with the low price at \$4.99 and the high price at \$5.99. It should also be noted that during this period there are significantly more ads, 701, for gallons. This contrasts with no ads two weeks ago, 501 ads four weeks ago and 79 ads six weeks ago. The weighted national average advertised organic yogurt price in 6 ounce containers increased 17 cents to \$0.92. Prices ranged from \$.60 to \$1.00 with 58.3% of the ads at the \$1.00 price level, which weighted the average price to the higher level. The \$.92 weighted average price is the highest average price reported in 2010, 6 cents higher than the previous high reported on September 24. The strong increase in total organic milk and yogurt sales during 2010 has also been individually experienced by a wide range of organic processors, both cooperative and private. Processors who combined handle a significant majority of U.S. organic milk and yogurt are planning 2011 sales and budgets based on continued sales growth at least in the range of 2010 growth. Total organic milk products sales for the most recently reported month, August, were up 15.1% for the month compared with August 2009 and up 8.0% year to date compared with 2009. This has led to plans by some processors to invest in new production and/or office space to handle the future higher organic dairy volume. Increased sales of organic milk have occurred both with branded as well

as private label offerings. Some processors cite generally increased demand as the driving factor. Other processors cite expanding organic milk offerings by supermarkets already offering various brands in fewer than total stores, into additional stores within a chain. Still other processors attribute growing interest in organic milk and dairy products to more interest in buying food generally, which is produced closer to home.

NOVEMBER FEDERAL MILK ORDER COOPERATIVE CLASS I PRICES (NASS): For November 2010, the all-city average announced cooperative Class I price was \$22.33, \$2.45 higher than the Federal milk order (FMO) Class I price

average for these cities. The November cooperative Class I price was \$0.66 higher than the October price. The Federal order Class I price was also \$0.66 higher than the October price. On an individual city basis, the difference between the Federal order and announced cooperative Class I price ranged from \$.50 in Phoenix, AZ, to \$3.89 in Miami, FL. For November 2009, the all-city average announced cooperative Class I price was \$18.04, \$2.54 higher than the Federal order Class I price average for these cities. Note: For most cities, the Announced Cooperative Class I Price now includes premiums paid for milk produced without rBST.

OCTOBER AGRICULTURAL PRICES (NASS): The index of prices paid by farmers for commodities and services, interest, taxes, and wage rates in October 2010 advanced 2 points to 185. Compared with October 2009, the index was up 8 points (4.5%). The index of prices received by farmers for dairy products advanced 4 points during the month of October 2010 to 140. Compared with October 2009, the index was up 31 points (28.4%). Prices received by farmers in October with changes from September were: for All Milk, \$18.30 (cwt.), up \$.60; for Fluid Grade Milk, \$18.30 cwt., up \$.60; and for Manufacturing Grade Milk, \$17.10, up \$.30.

SEPTEMBER 2010 DAIRY PRODUCTS (NASS): Butter production was 110.5 million pounds in September, 16.7% above September 2009 and 8.7% above August 2010. American type cheese production totaled 354.6 million pounds, 3.4% above September 2009 and 0.3% above August 2010. Total cheese output (excluding cottage cheese) was 878.6 million pounds, 4.3% above September 2009 and 0.4% above August 2010. Nonfat dry milk production, for human food, totaled 108.9 million pounds, 24% above September 2009 but 8.9% below August 2010. Dry whey production, for human food, was 75.7 million pounds, 0.4% below September 2009 and 1.1% below August 2010. Ice cream (hard) production totaled 74 million gallons, 0.4% below September 2009 and 2.3% below August 2010.

CLASS AND COMPONENT PRICES (DAIRY PROGRAMS): The following are the October 2010 prices under the Federal Milk Order pricing system and the changes from the previous month: Class II \$17.57 (-\$0.03), Class III \$16.94 (+\$0.68), and Class IV \$17.15 (+\$0.39). Product price averages used in computing Class prices are: butter \$2.1893, NDM \$1.1674, cheese \$1.7666, and dry whey \$0.3676. The Class II butterfat price is \$2.4506 and the Class III/IV butterfat price is \$2.4436.