Dairy Situation and Outlook

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August Milk Production Up 2.8%,

August 2010 23 major dairy states milk production increased 2.8%. Production per cow was up by 51 pounds from one year ago. Milk cow numbers were 10,000 less than Aug 09 and 8000 less than July 2010. July 10 milk production was unrevised.

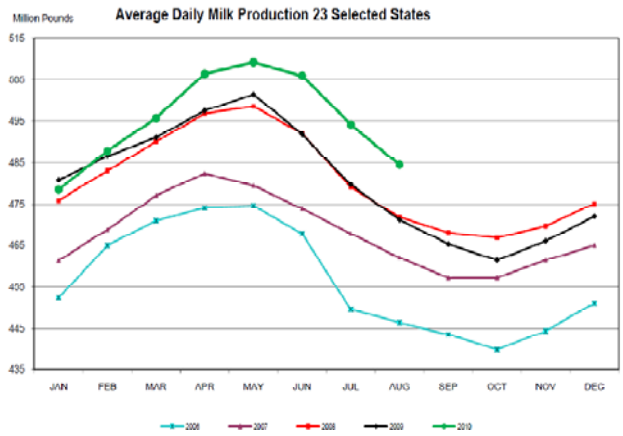
Iowa Aug 10 milk production was -2.7% compared to one year ago. Cow numbers were 8000 less compared to one year ago and milk production per cow was only 20 pounds higher than one year ago. Cheese production in Iowa during July 10 was 20,734,000 pounds, -1.6% from June and 12.6% higher than one year ago.

Milk Production: Selected Dairy States, August 2010

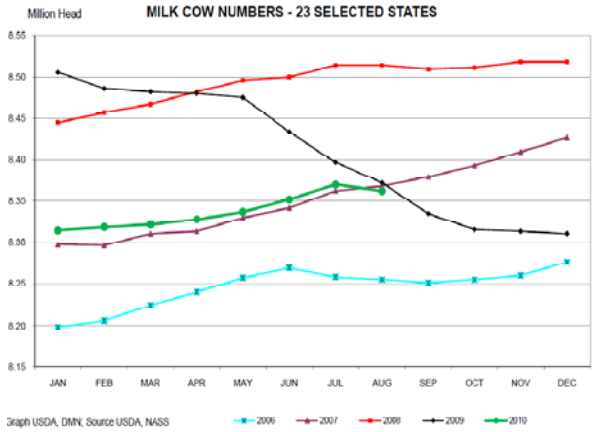
State	thousands 2009 cow numbers	thousands 2010 cow numbers	% change cow numbers	pounds 2009 milk per cow	pounds 2010 milk per cow	% change milk/cow	million pounds 2009 total milk production	million pounds 2010 total milk production	% change total milk
Iowa	215	207	-3.72%	1700	1720	1.18%	366	356	-2.59%
MN	469	470	0.21%	1620	1605	-0.93%	760	754	-0.71%
WI	1257	1263	0.48%	1730	1730	0.00%	2175	2185	0.46%
IL	102	99	-2.94%	1530	1495	-2.29%	156	148	-5.16%
CA	1782	1745	-2.08%	1820	1950	7.14%	3243	3403	4.92%
CO	123	120	-2.44%	1950	2025	3.85%	240	243	1.31%
KS	117	120	2.56%	1745	1725	-1.15%	204	207	1.39%
ID	548	573	4.56%	1940	2000	3.09%	1063	1146	7.80%
AZ	171	179	4.68%	1790	1765	-1.40%	306	316	3.22%
NM	320	318	-0.63%	2000	2025	1.25%	640	644	0.62%
PA	545	541	-0.73%	1610	1670	3.73%	877	903	2.97%
NY	618	611	-1.13%	1690	1790	5.92%	1044	1094	4.72%
TX	420	415	-1.19%	1680	1695	0.89%	706	703	-0.31%
23-State	8372	8362	-0.12%	1745	1796	2.92%	14606	15019	2.83%
US 2nd quarte	9262	9111	-1.63%				48888	49724	1.71%

It is boring to say this, but of the 23 dairy states, MO had the largest decline in milk production again, -8.8%; they lost cows, 7000, and lost 30 pounds milk per cow. The second largest milk drop was IL with -5.1% due to 3000 less cows 35 pounds less milk per cow. ID had the largest rise in milk production, 7.8%. ID added 25,000 cows and had 60 pounds more milk per cow. Washington state had a 7.4% increase in milk production from 15000 more cows and 20 pounds more milk per cow. Oregon also had a big milk increase, 6.9%, with an additional

4000 cows and 55 pounds of increased milk per cow. WI had 5000 more cows and 20 pounds more milk per cow for a 0.46% total milk increase.



Source: Dairy Market News



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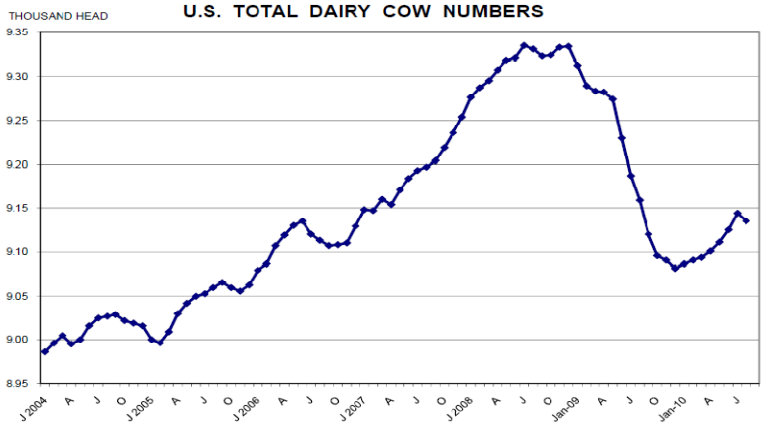


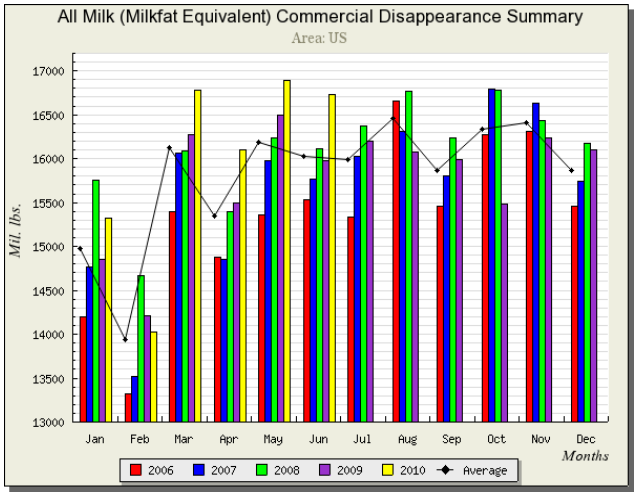
Source: Source: Dairy Market News

USDA's "Livestock Slaughter" report said dairy producers sent 231,000 dairy cows to slaughter during Aug 2010, 8000 more than July 2010 but 8000 less than one year ago. During the first 8 months of 2010 total culling is 4.5% below the same period one year ago.

Demand or Disappearance

Fluid milk demand continues to weaken. YTD fluid milk consumption is off by -1.4% compared to one year ago, 0.1% less compared to the previous report. July 10 fluid milk consumption was -2.3% from July 09, better than the previous month's decline of 3.8%. Total fluid milk sales include organic milk. Total Organic milk product sales are up 13.7% for July 10 and up 9.6% year to date. Total fluid milk consumption would have been down an additional

0.2% without organic milk included. Organic milk is higher priced than regular and would seem to indicate improved economic factors compared to one year ago.

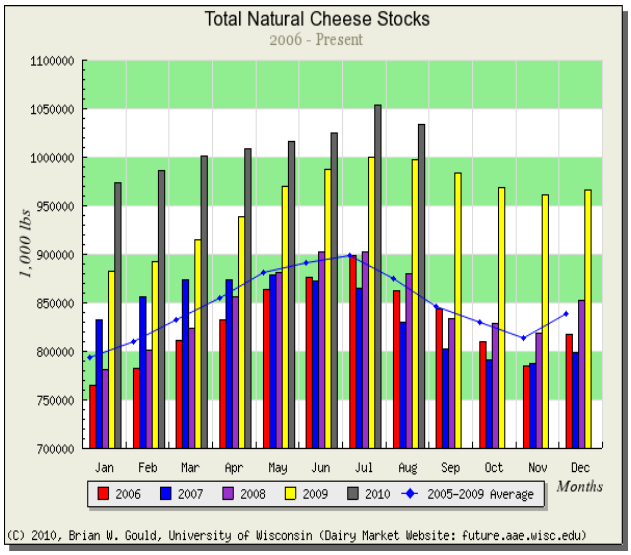


Source: Understanding Dairy Markets, U of WI

Dairy Product Manufacture: July 2010

Product	thousands pounds	July 09 % change	June 10 % change	YTD % change
Butter	111,014	-2.90%	-7.7	-5.9
Cheese, total	882,284	4.70%	0.2	2.8
Cheddar	276,536	2.60%	-3.3	0.3
Other American	92,332	8.40%	10.1	
Swiss	28,401	4.30%	3.3	
Italian Style	364,422	5.30%	0.4	5.6
NDM	131,819	-1.00%	-3.2	-3.5
Sour Cream	90,823	-1.80%	-7.7	1.6
Yogurt	344,874	11.30%	-2.6	7.9
Dry Whey, total	87,538	-6.50%	1.7	2.9
Lactose	78,192	27.80%	2.8	23.3
WPC	34,937	-0.80%	2.1	1.2
Frozen	1000 gal			
Ice cream, regular	79,000	-6.30%	-6.2	-1.9
Ice cream, lowfat	41,192	6.30%	-9.2	4.9

Source: Dairy Products



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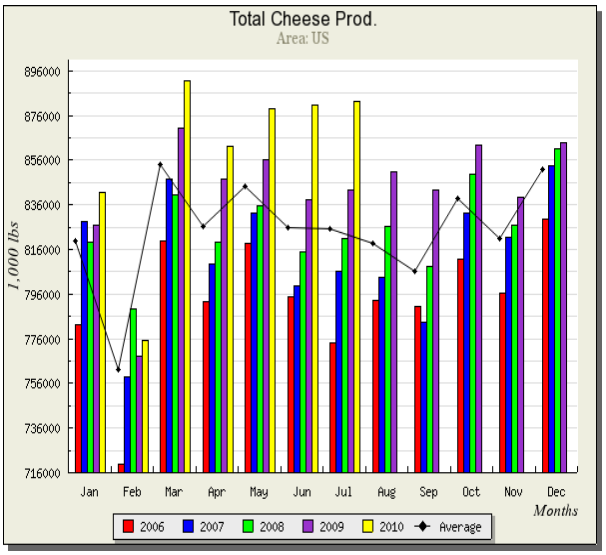


Source: Understanding Dairy Markets, U of WI

"Cheese stocks have remained large compared to the 5-year average. And at just over 1 billion pounds, the largest inventory since Nov 1984." That was my comment from the last five month's dairy notes. And guess what; it changed. We have begun to draw down cheese inventory. We are now at 1.034 billion pounds of cheese in storage, which is 19 million pounds less than the peak. The chart above shows we are still above the 5-year average however. Total Cheese inventory is 4% above year ago and 2% below July 10.

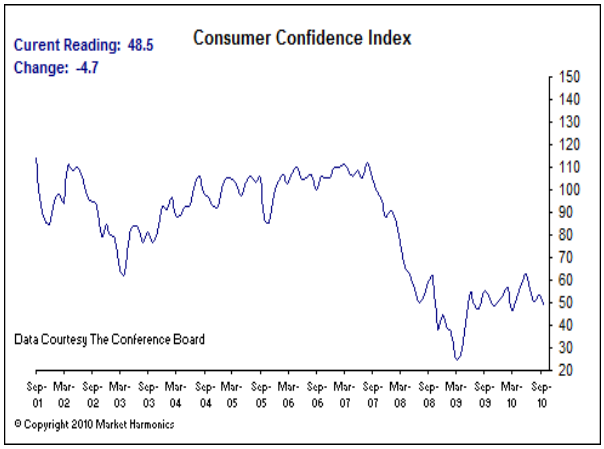
Analysis

The Milk-Feed Price ratio continues to be close to the long run average but has declined since February through the summer and is now back to the February level at 2.36. According to the ratio we should not see the US dairy herd growing but it is, until this past month. The ratio will likely decline in the near future due to increased corn and soybean prices, but milk futures prices have risen in the past few weeks. Whether the rise is enough to offset increased feed cost is currently unknown.

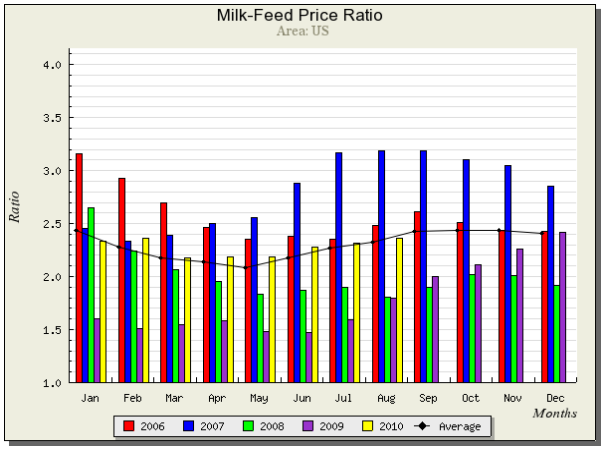
During the first half of 2010 US dairy exports were stronger than 1 year ago, up from 8.5% of milk solids production to 11.8%. Imagine what would happen if exports were flat. Producers in NZ and Australia may be able to improve production year over year, their winter moisture was much improved compared to the previous year. Argentina milk production was up 5% in June and Brazil had 4% more milk during the first half of 2010. EU milk deliveries for June were 2% higher, the largest monthly increase in a year.

Significant inventories of butter and skim milk powder (SMP) are held by EU-27, they hold 225,000 tons of skim milk powder. China has purchased 260,000 tons of whole milk powder through July, a year over year increase of 75%. Russia has increased its dairy imports by 45% in July due to drought stricken production.

FC Stone analysts have recently commented on the willingness of the dairy industry to shrug off the previous bearish milk production reports. That comment seems to indicate a belief that the milk markets are oversold. But then they follow up with the observation that more milk is required to make dairy products due to lower components. They also note that since the beginning of the year the US dairy herd has increased by 53000 head and milk per cow increases are higher than the 5-year average. These could become serious concerns if the Oceania milk production returns to pre-drought levels. US export levels could decline and put more milk products into domestic use.



Source: Market-Harmonics.com



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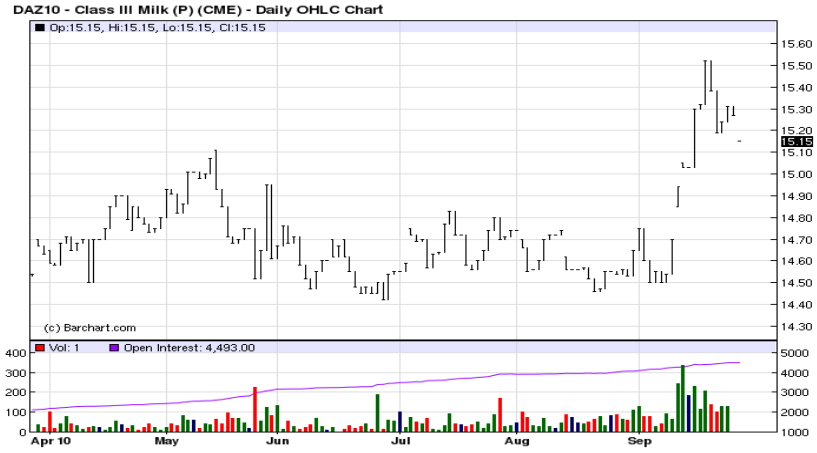

Source: Barchart.com

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