

FIRST MONDAY

**A dairy supply & demand analysis
with long-range price forecasting**

Jerry Dryer, Chief Market Analyst, 06 Jun 2011



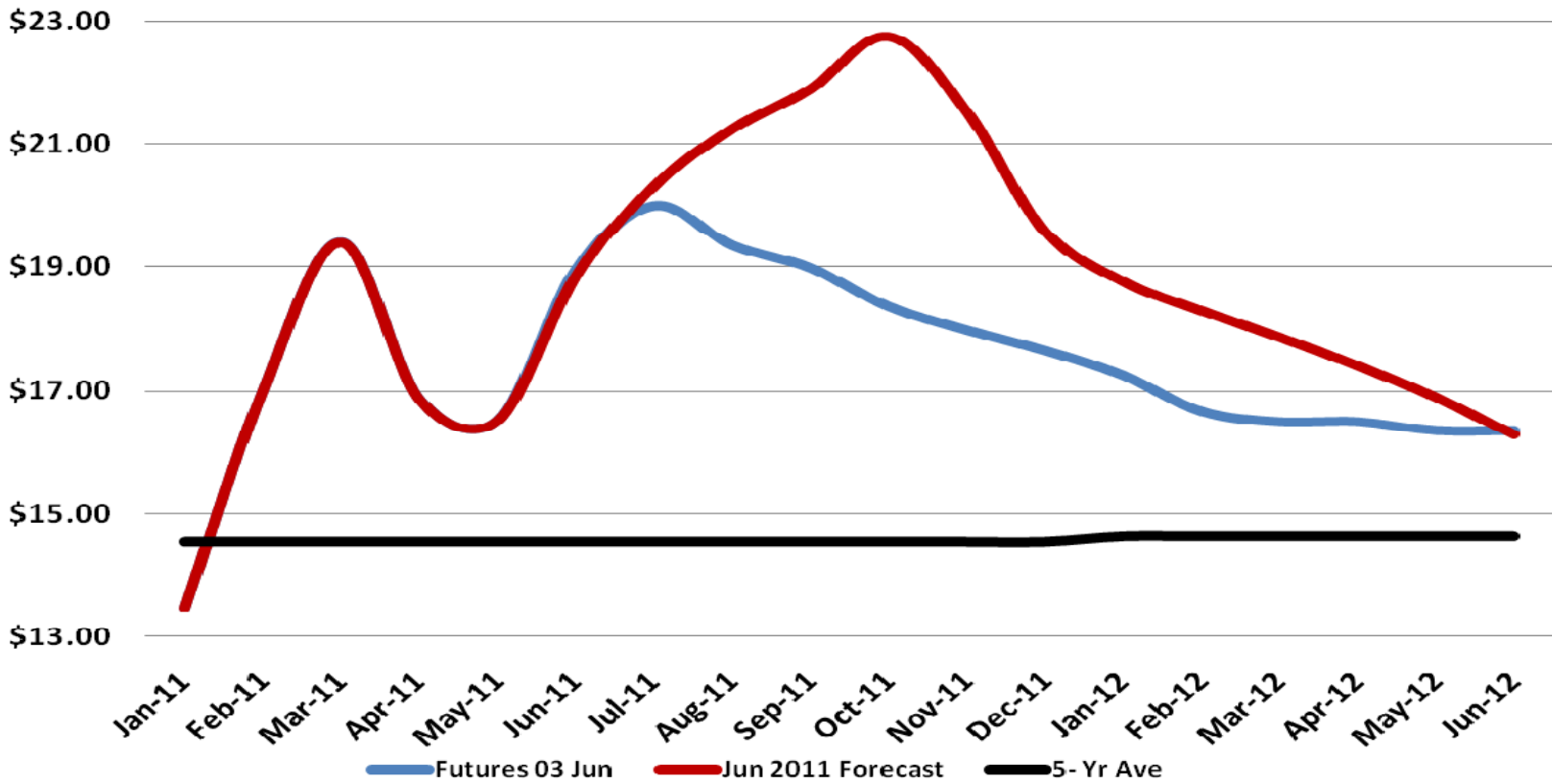
Outlook in a nutshell

- **Milk production estimates revised slightly lower**
- **Demand forecast nudged slightly higher**
 - Domestic foodservice sales recovery
 - International demand
- **Price revisions for milk and cheese**
- **Monthly changes moved annual averages like this:**
 - CME block cheese: from \$1.77 to \$1.92 in 2011
 - CME butter: from \$2.03 to \$2.17
 - NASS nonfat dry milk: from \$1.60 to \$1.56
 - NASS dry whey: unchanged at \$0.50
 - Class III: from \$17.83 to \$19.13/Class IV: from \$20.27 to \$20.38

Uncertainties, risks, assumptions

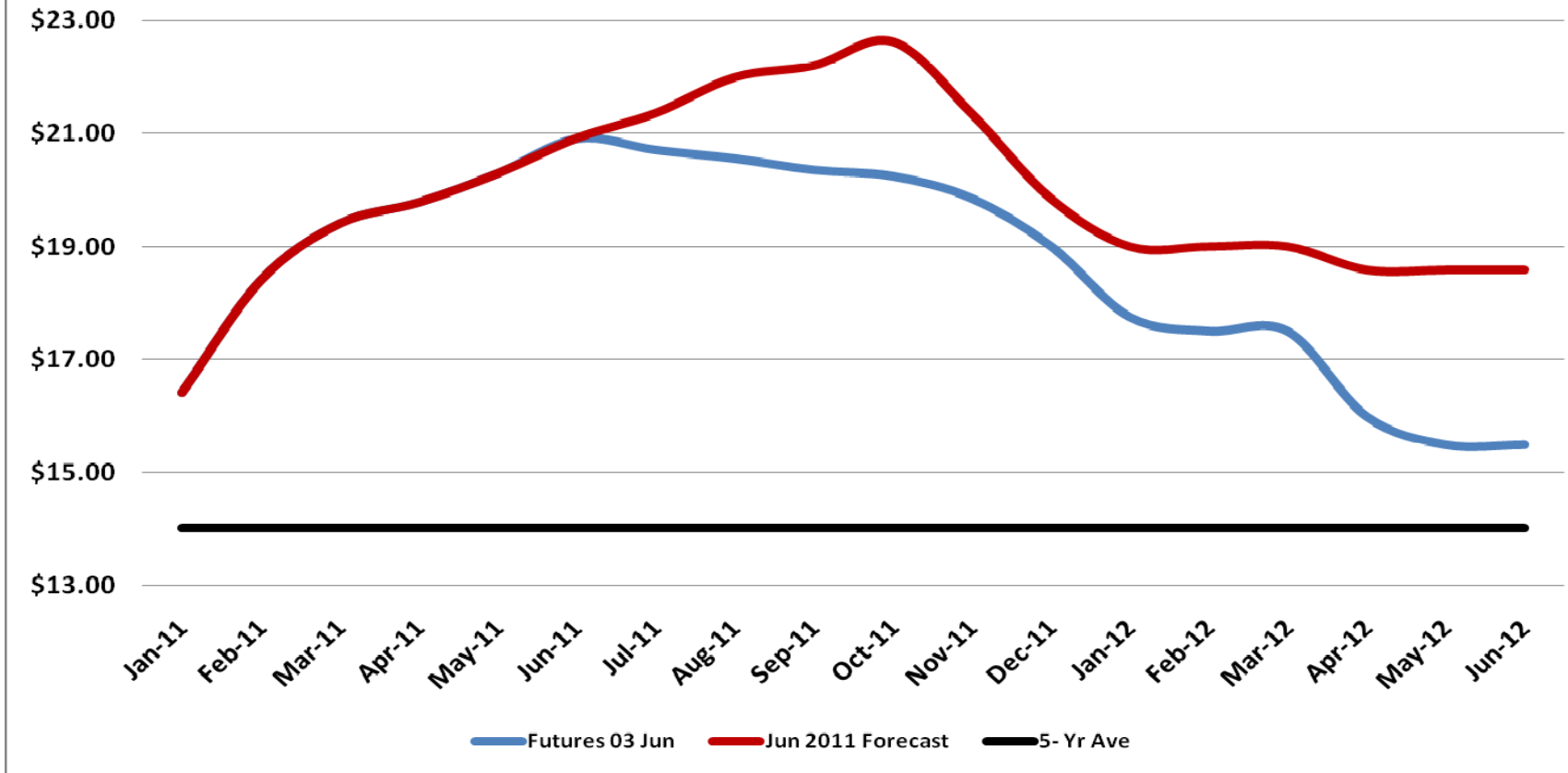
- **Mother Nature**
 - Feed supplies, feed quality, feed prices
- **Milk supplies**
 - New Oceania season; exporters becoming importers
- **Worldwide economic conditions, trends**
 - Oil prices
 - Feed prices
- **International trade trends**
 - Political issues
 - Currencies
 - Crisis in Japan
 - Demand from China

Class III prices

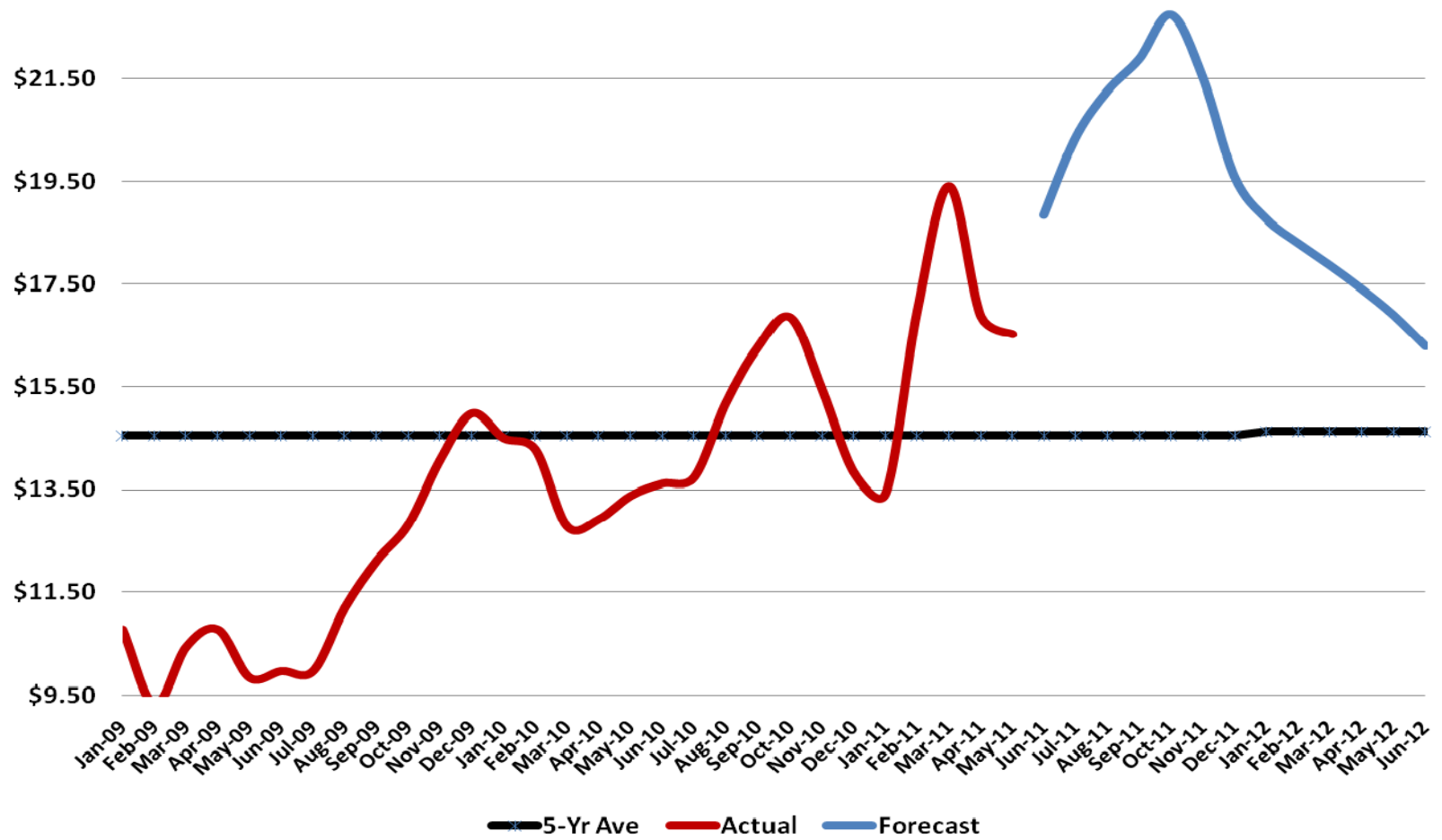


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Class IV prices

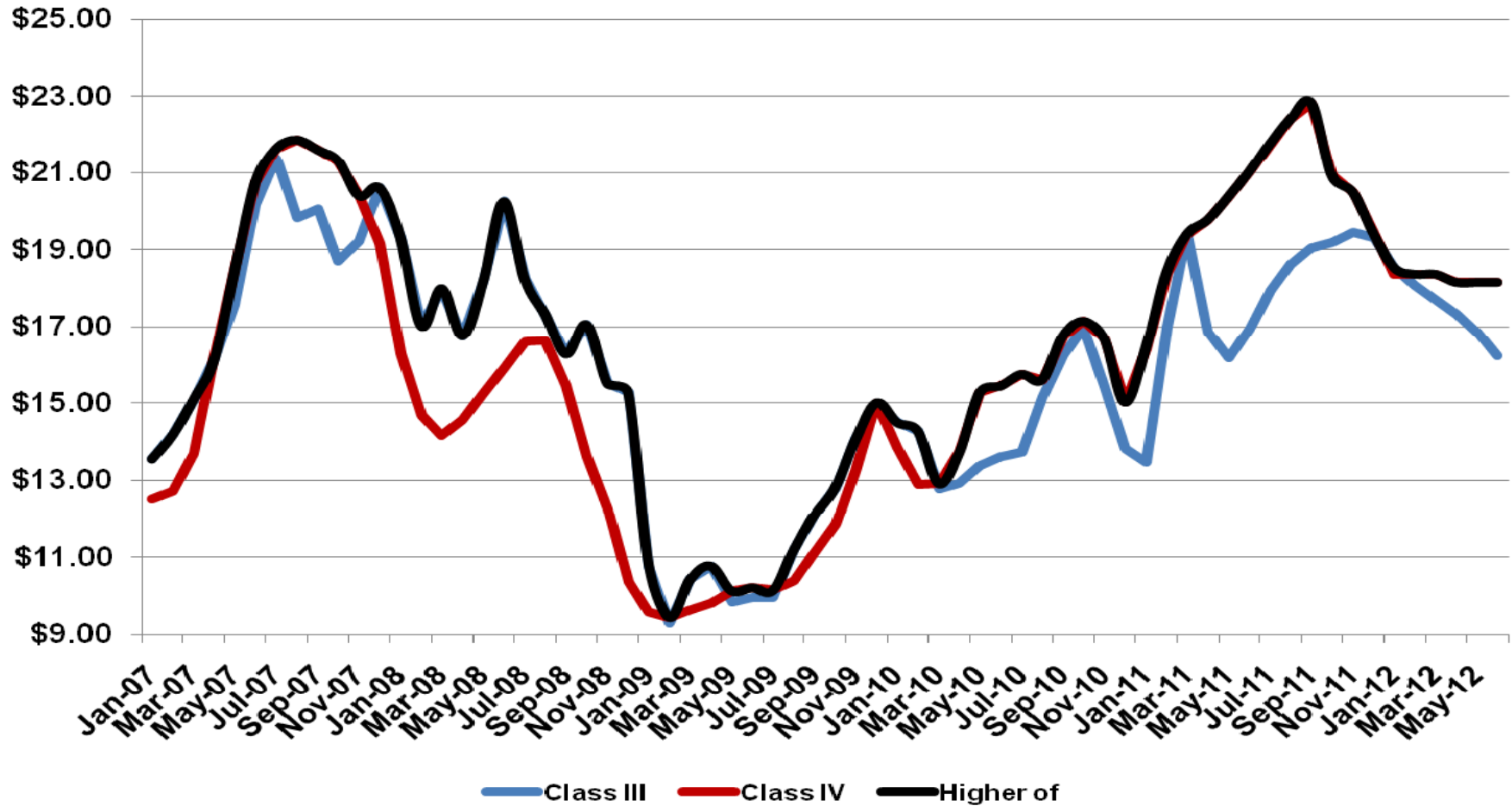


Class III Price Trend



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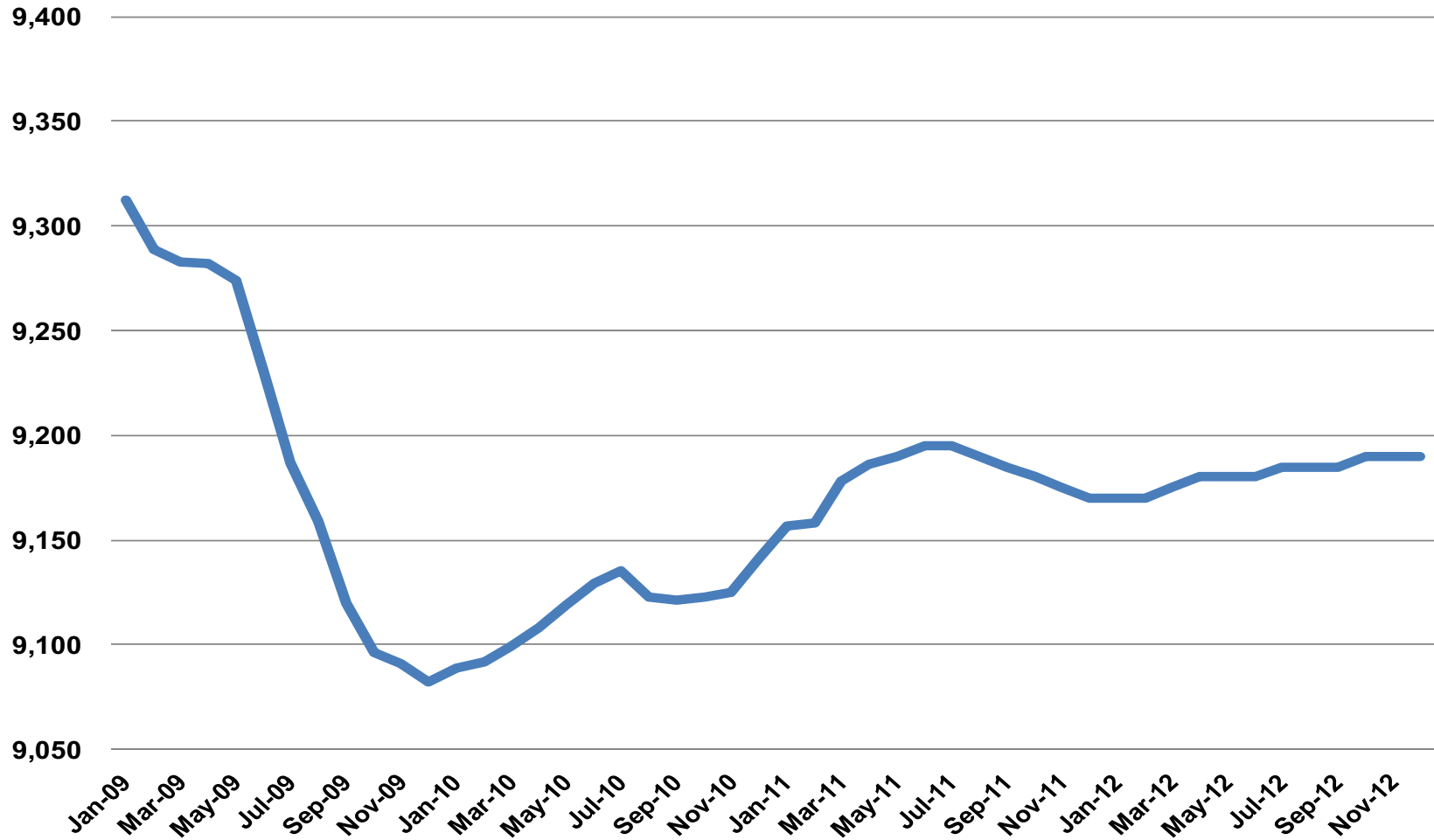
Class I price mover



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Cows in milking herd

(Estimates May 2011 thru Dec 2012)

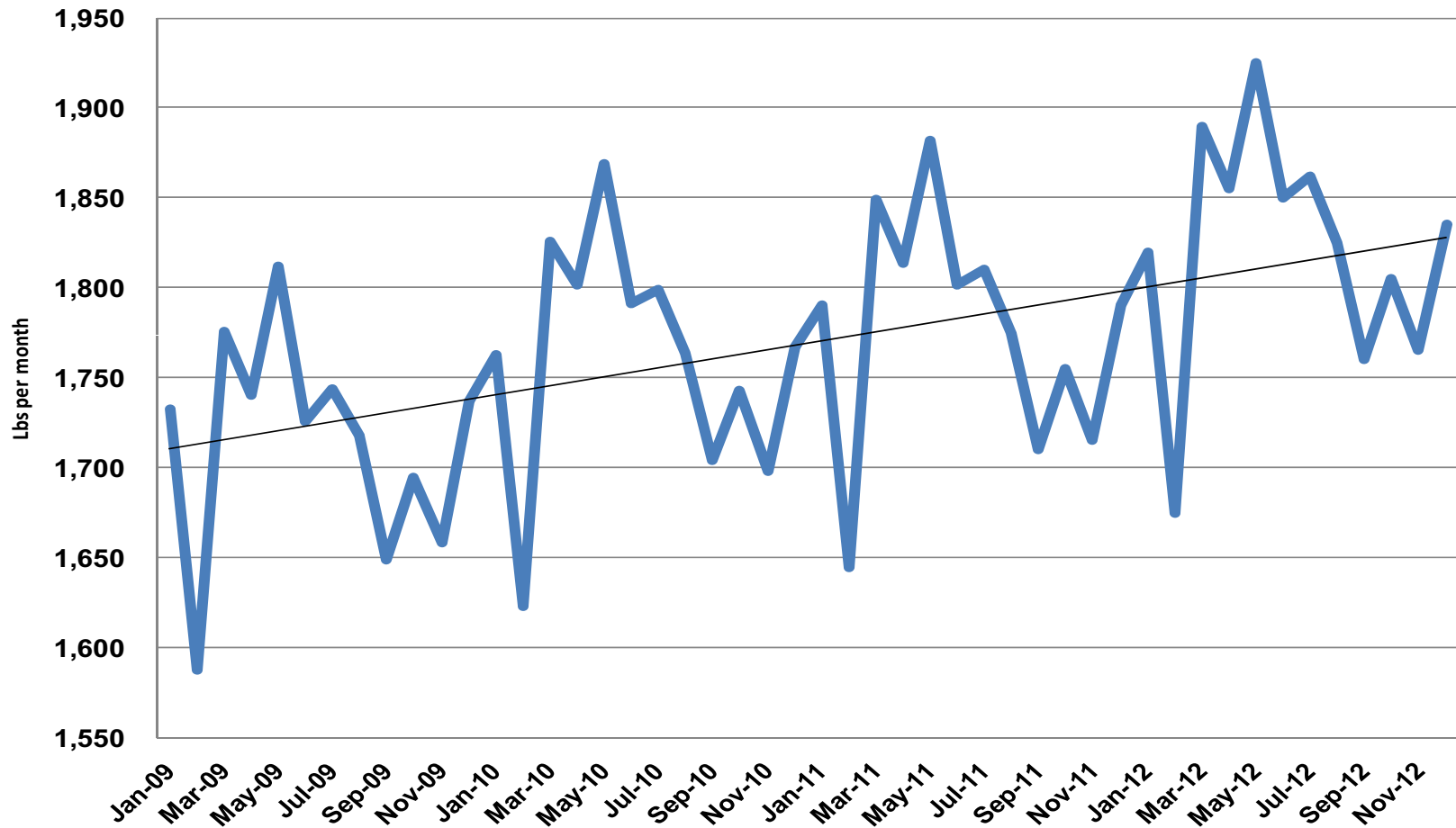


Milk cow numbers

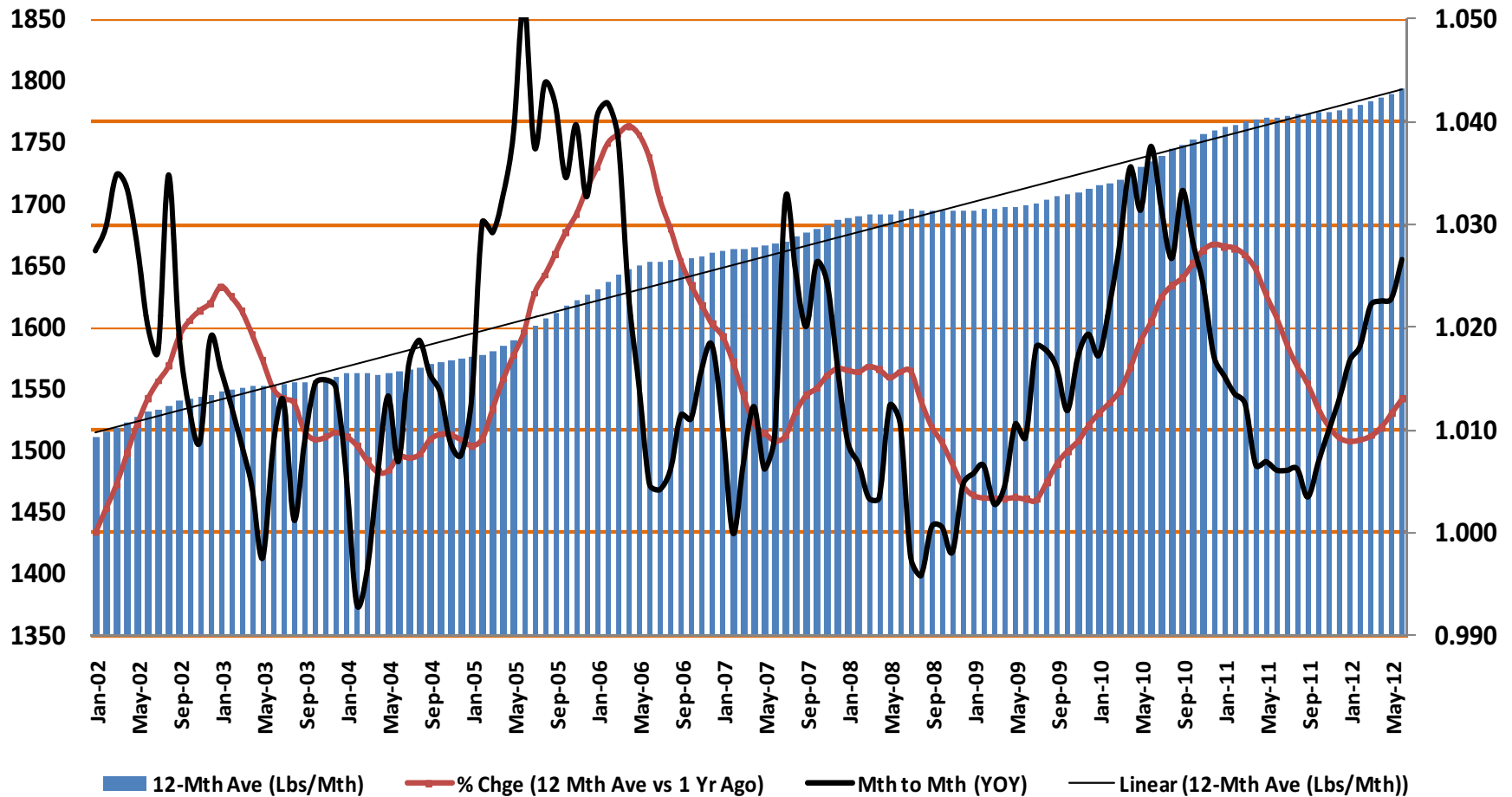
- **Expect herd size to grow, albeit slower than last year**
 - Milk producers added 59,000 cows during 2010
 - Expect 39,000 to be added this year
 - **Factors to keep in mind**
 - Gender-selected breeding; less usage will negatively impact replacement numbers during 2H11 and 1H12
 - Slaughter cow prices have eased lower; but high burn-rate of replacements
 - Will bankers be willing to finance growth
 - Revenue gains in 2011 will be directed toward debt reduction, limited expansion
 - CWT in history books
 - At forecast milk prices, farmers have a big incentive to add cows
 - Replacement prices already responding to better milk prices

Milk per cow

(Estimates May 2011 thru Dec 2012)



Production per cow trend

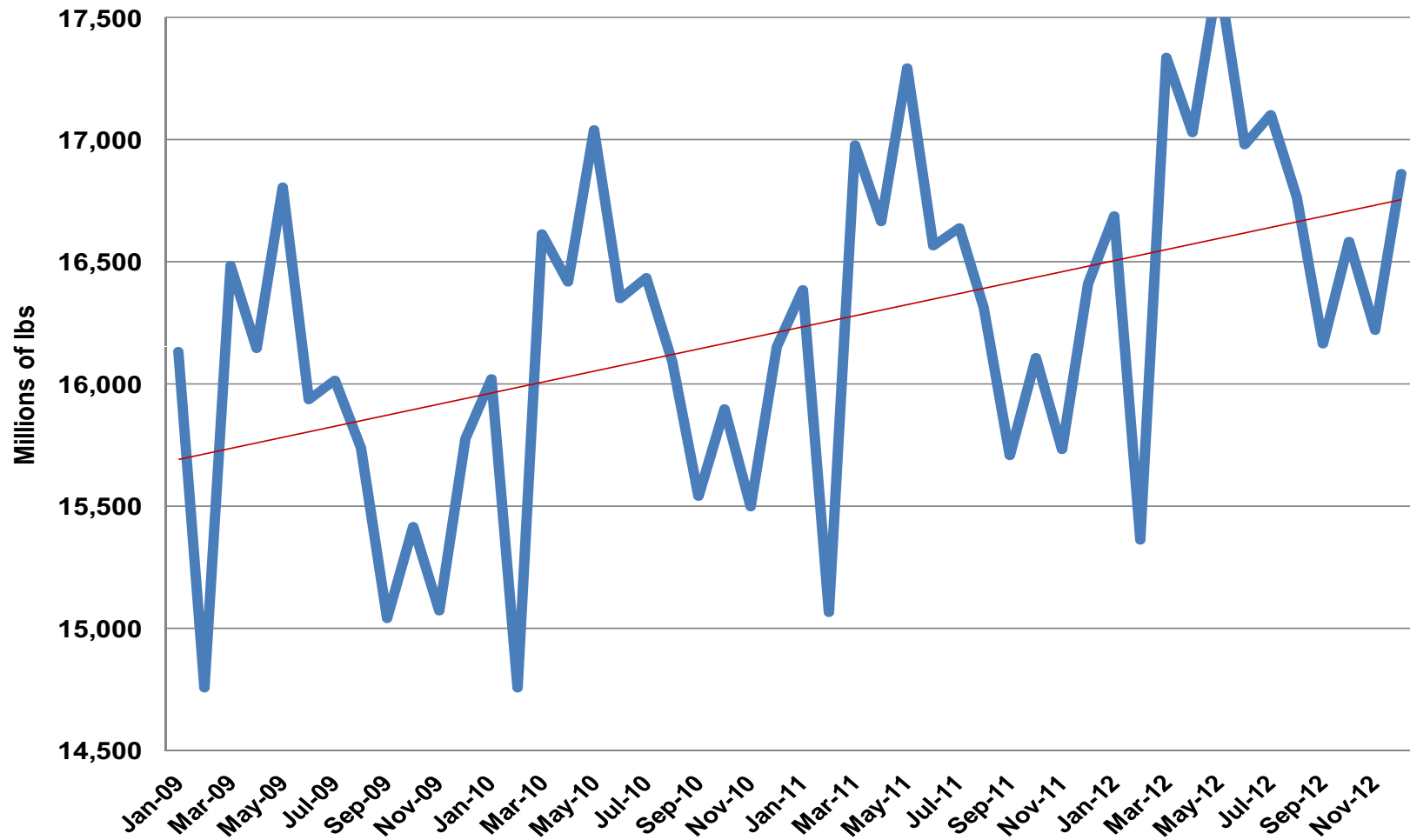


Milk per cow

- **Production per cow below trend in 2011**
 - More, young animals in herd supportive of average output per cow
 - **Feed prices (ROFC) & feed quality will limit growth**
 - Alfalfa shortage, ethanol, exports of alfalfa and corn, corn acreage to cotton and beans, alfalfa acreage to grain, annual crops to trees in CA
 - Revenue-over-feed-costs was strong during 1Q11, but waning
 - Improved milk prices should restore acceptable ROFC by 3Q11
 - **Mother Nature? Haven't had an adverse weather event for 2 years**
 - This could be a catch-up year: Midwest rains, Southwest drought, etc
 - Near-ideal spring, early summer in much of the West
- **Production per cow up 2.8% (+576 lbs) in 2010**
- **Expect an increase of 0.9% (+188 lbs) in 2011**

Total milk production

(Estimates May 2011 thru Dec 2012)



Total milk supply

- **Production in 2010**
 - **192.819 Billion lbs**
 - +1.8%
 - +3.485 billion lbs
 - 528.3 million lbs per day
- **Production in 2011**
 - **195.882 Billion lbs**
 - +1.59%
 - +3.063 billion lbs
 - 536.7 million lbs per day
- **Worldwide: Supply situation**
 - **Modest gains until Oceania season arrives in Sep**

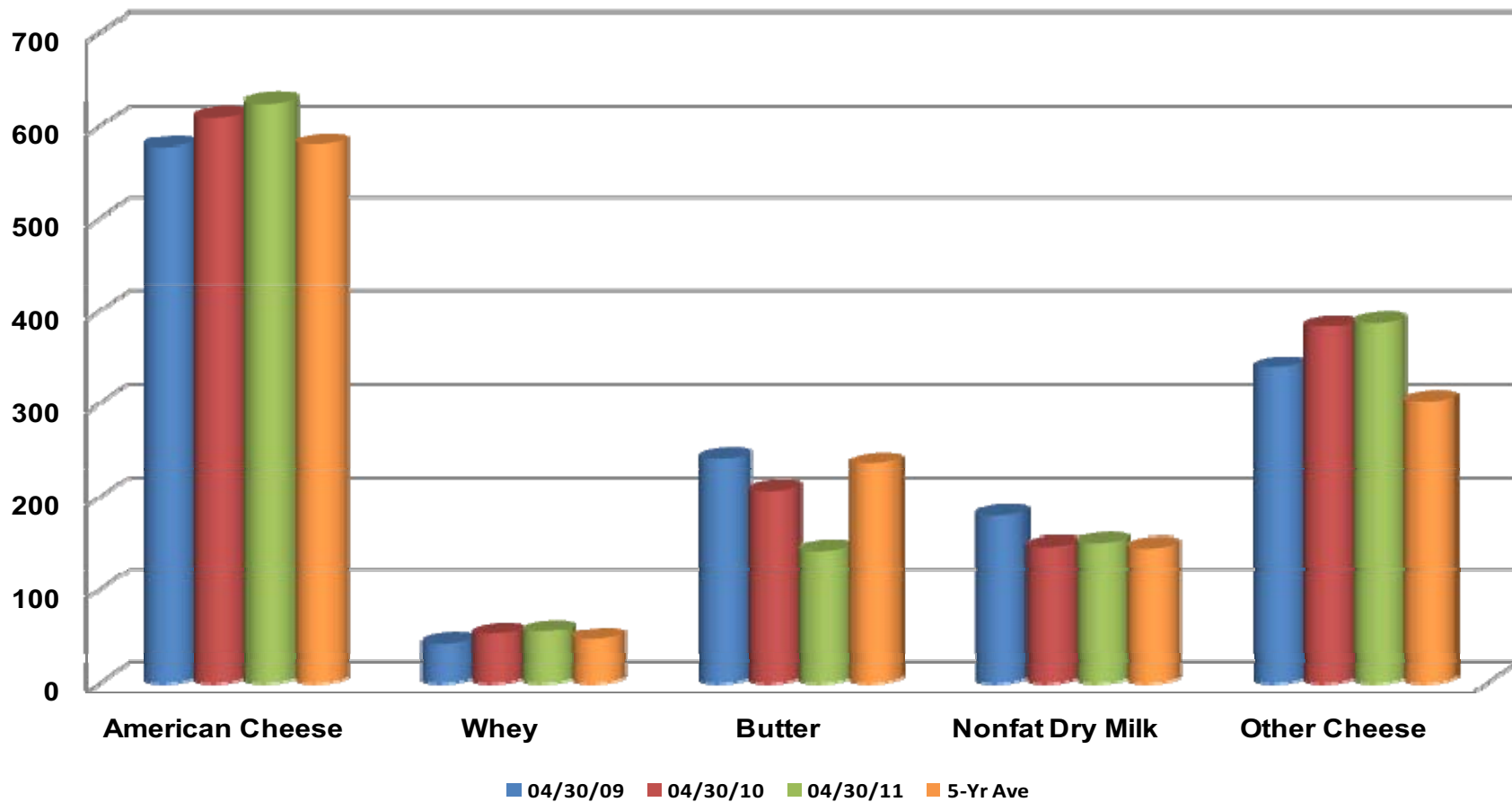
Product production

Factors to keep in mind

- Manufacturing plants: The design, the financials all call for 24/7 operation
- Milk no longer readily moves where the money is when one price (Class III or Class IV) is significantly higher than the other
- Regional milk production levels could impact product supplies
- Increasing volumes of non-traditional products could begin to skew NASS data's usefulness

Dairy Product Inventories

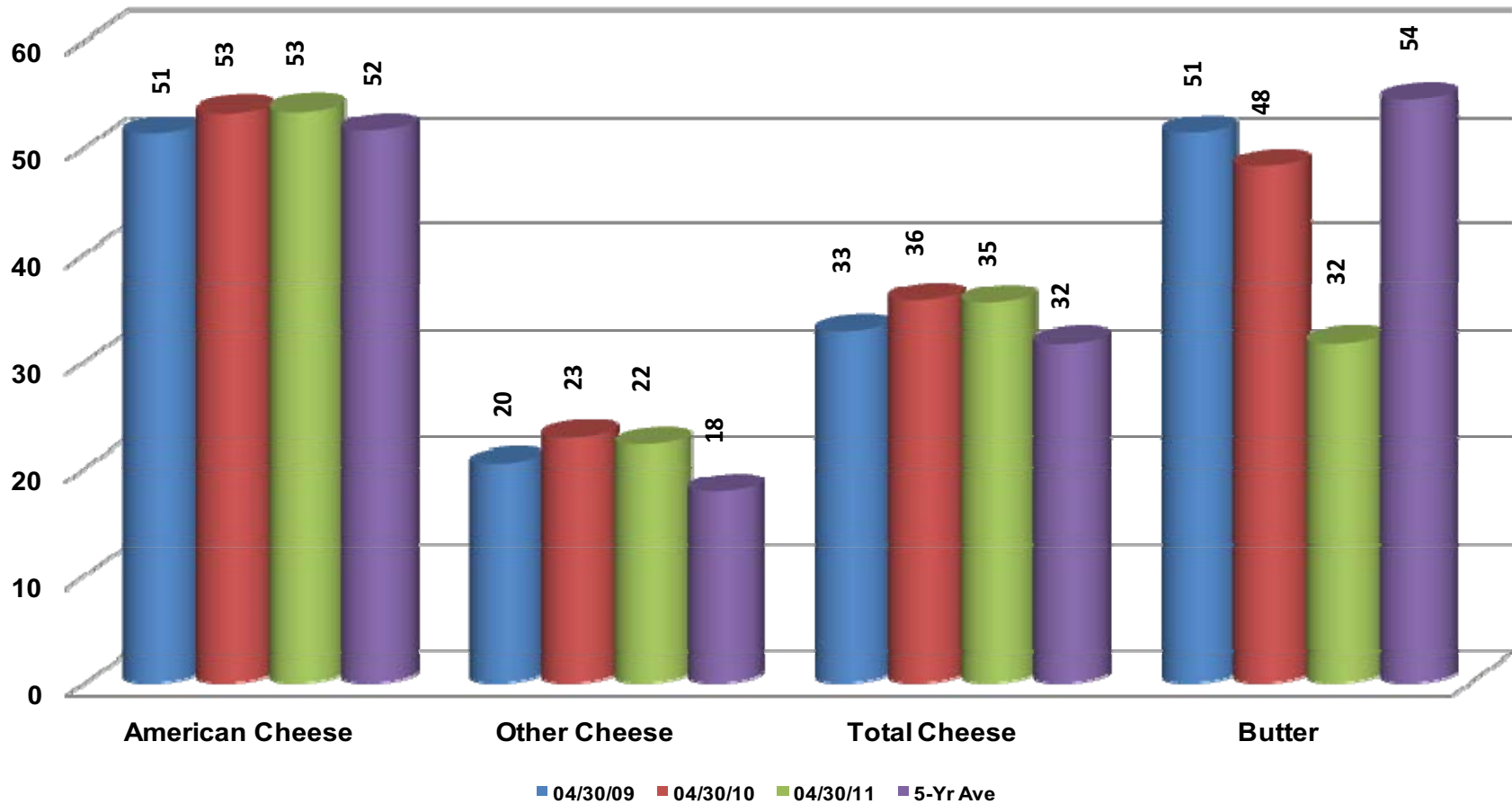
(Millions of Lbs)



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Stocks to Usage

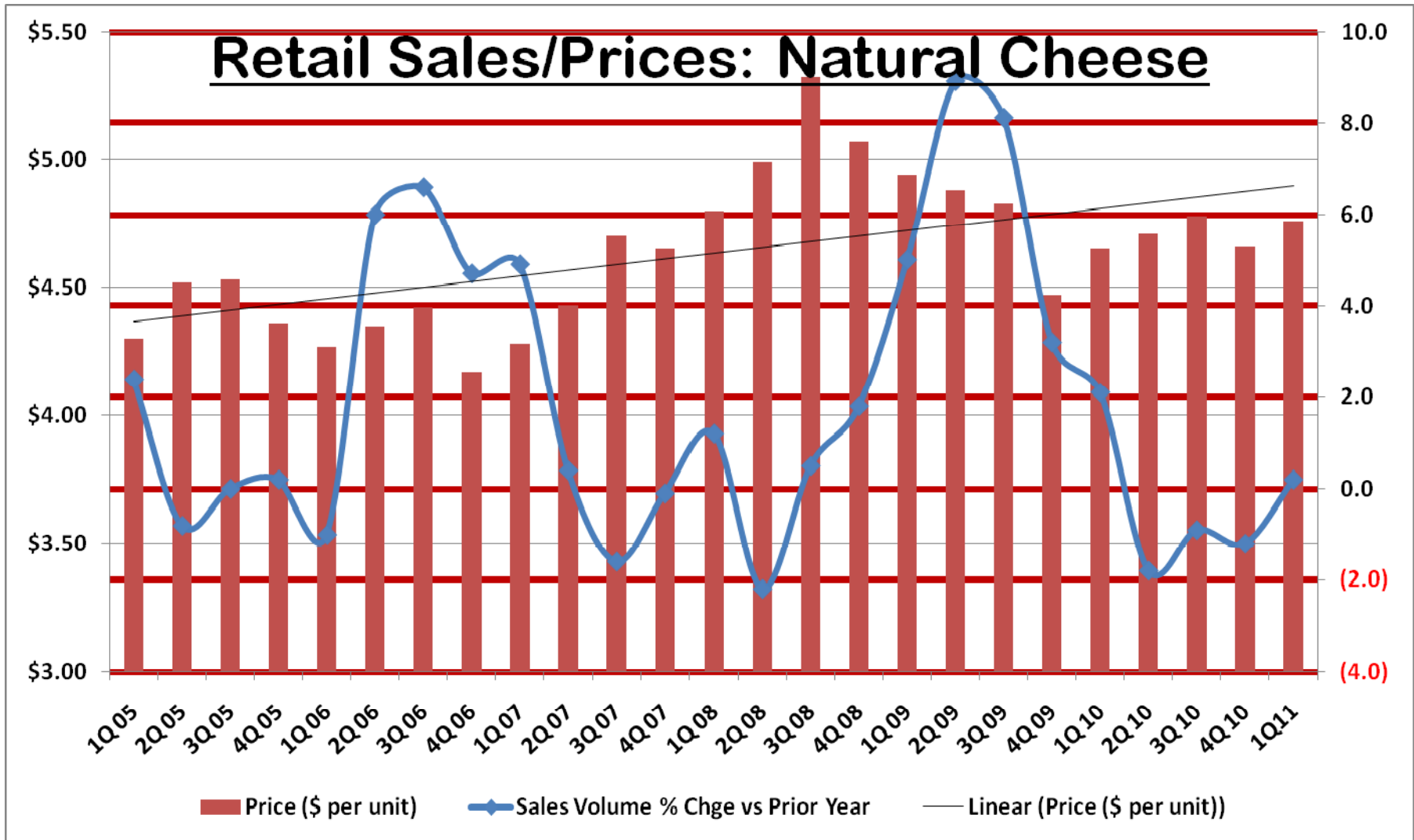
(Days of Usage in Storage)



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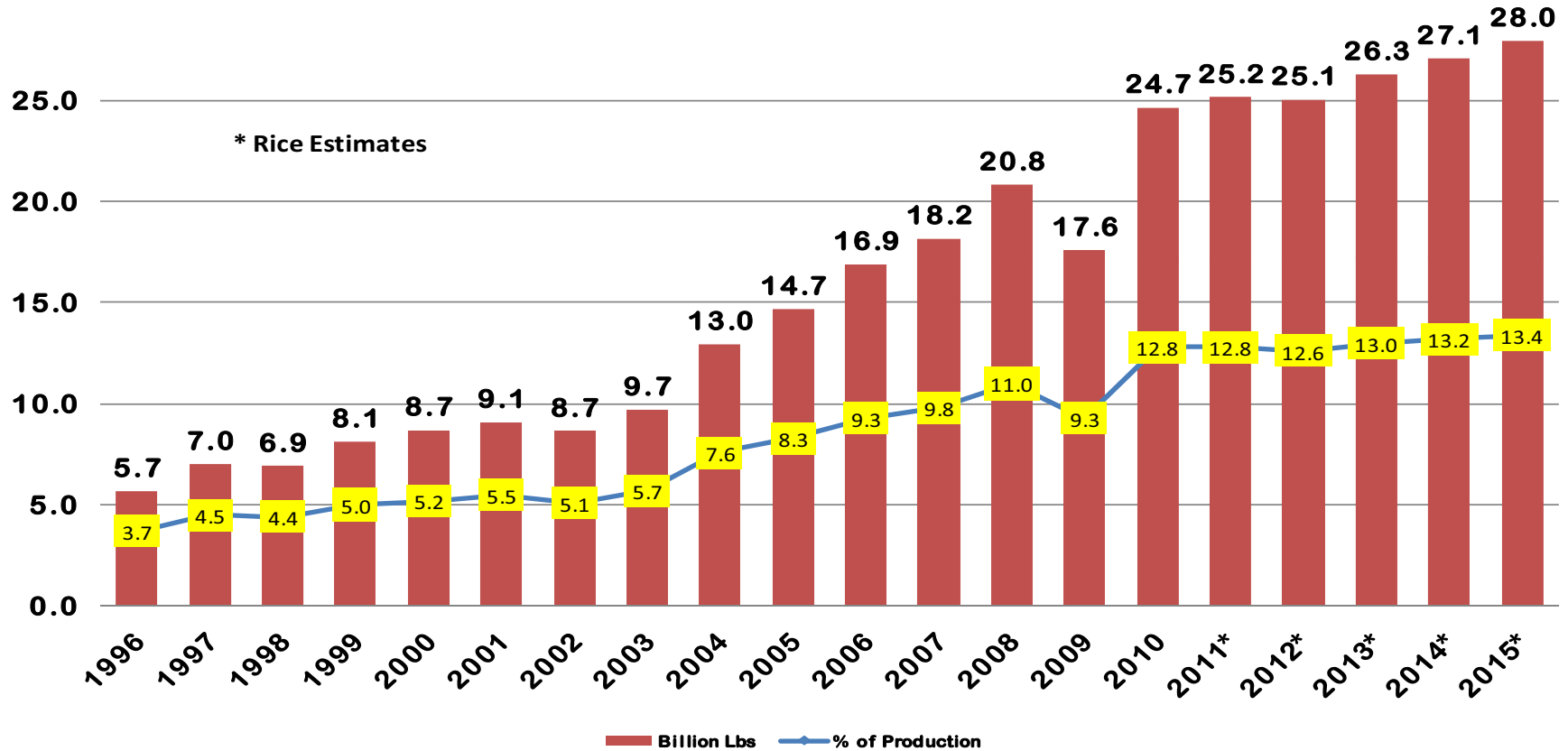
Product supply issues

- **Cheese inventories remain at historic highs**
 - Just-in-time deliveries keep product in manufacturers' warehouses where it is more readily counted by USDA
 - Larger market requires larger pipeline
 - Exporting may dictate short-term inventory building
 - More aging in the USA; American, hard Italian
 - With the ability to layoff risks, there is more physical hedging
- **Butter inventory at historic low**
 - Worldwide phenomena
 - Fat being committed to cheese, whole milk powder
- **Whey and nonfat dry milk remain relatively tight**



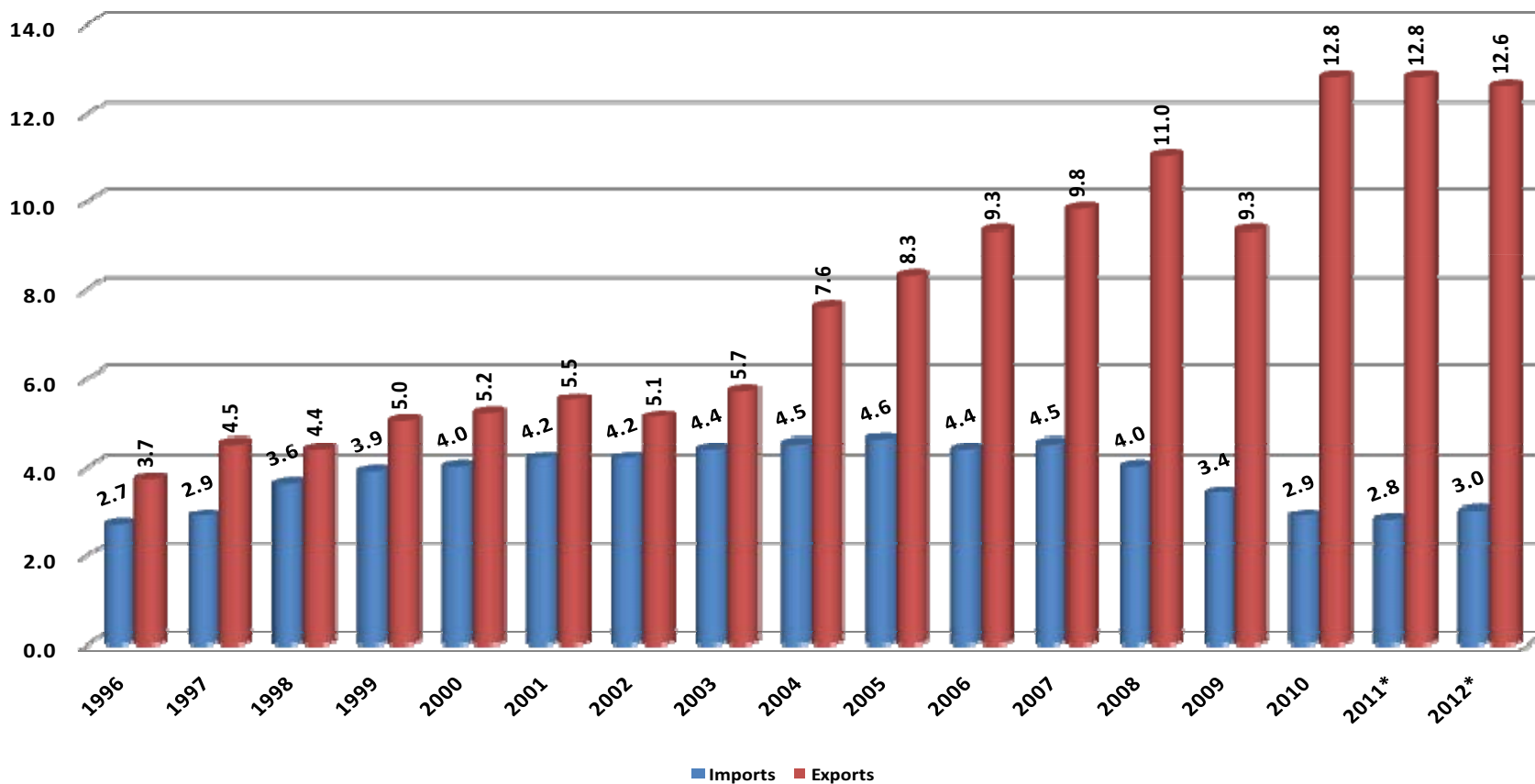
USA dairy exports

Billions of Lbs ME & % of USA Production)

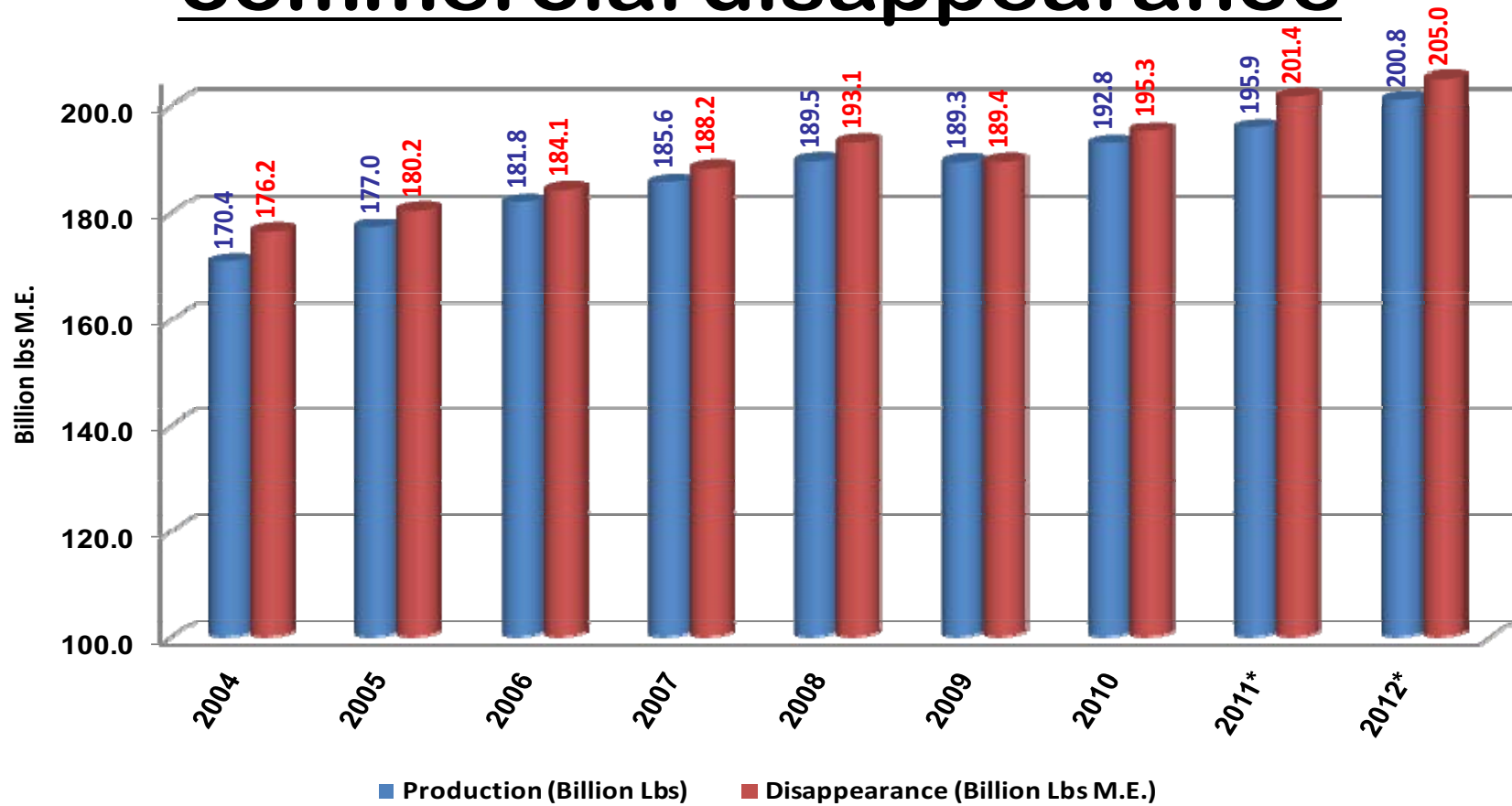


USA dairy trade balance

(Percent of USA milk production)



Milk production vs commercial disappearance



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USA dairy demand

- **Domestic demand**

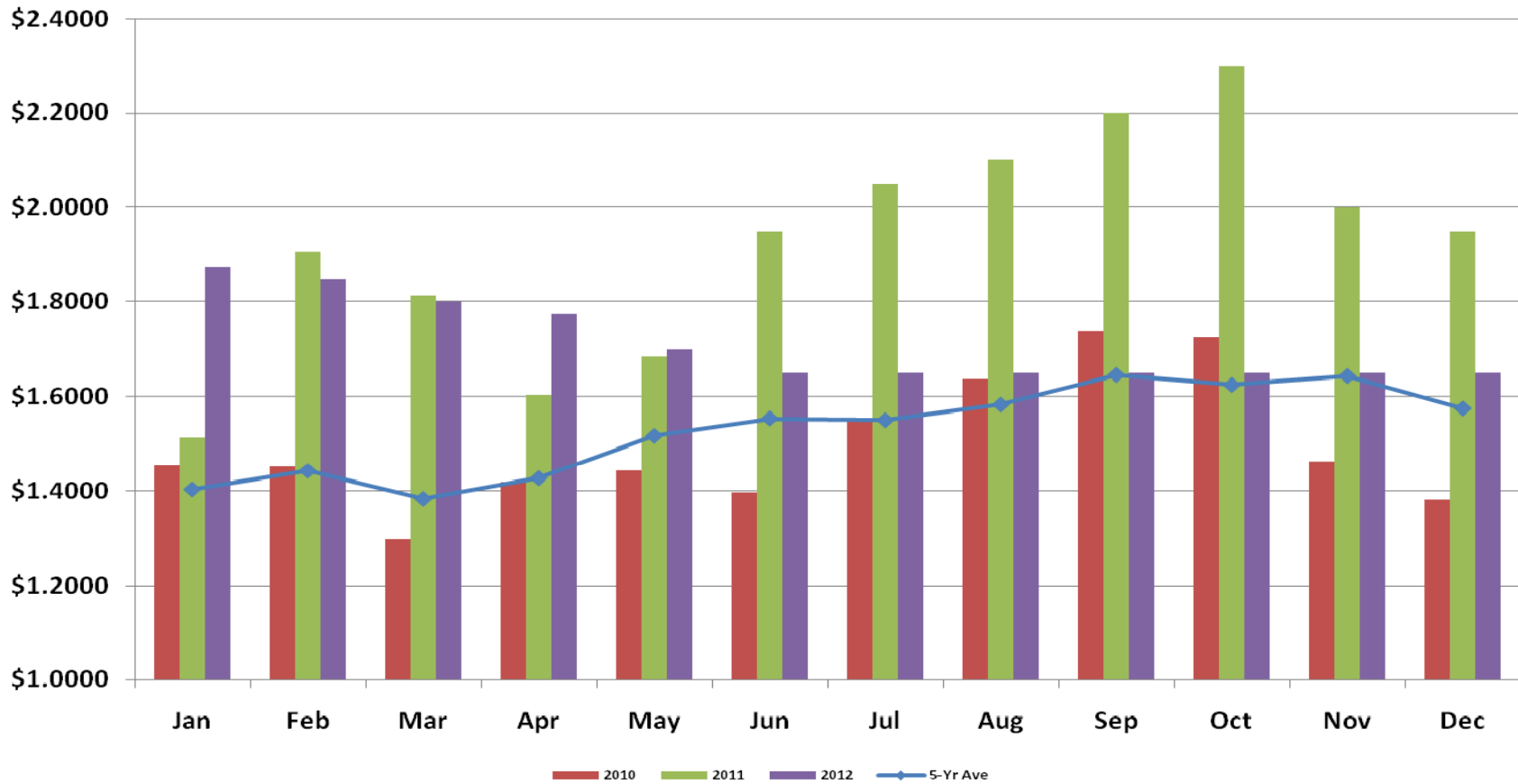
- Economic recovery continues; however, threatened by higher fuel prices
- Employment picture troublesome; may impact foodservice
- Retail sales improved for cheese; may suffer with \$2 cheese
- Foodservice strengthening; usage up significantly 1Q11
- Radiation issue seems dead

- **International demand**

- Prices are being driven higher by demand; not tight supplies which was the case in 2007 & 08
 - International market is a sellers' market not the buyers' markets of years past
- Temporary price softness, but long-term prices will be higher than historic averages
- Strengthening economies; more sustainable demand
 - Energy prices; two-income households
- Internal shortages; export bans
 - China, Russia, Algeria, India, Brazil, South Korea
 - Russia and Algeria won't source USA product, but still add to worldwide demand

CME Block Cheese Price

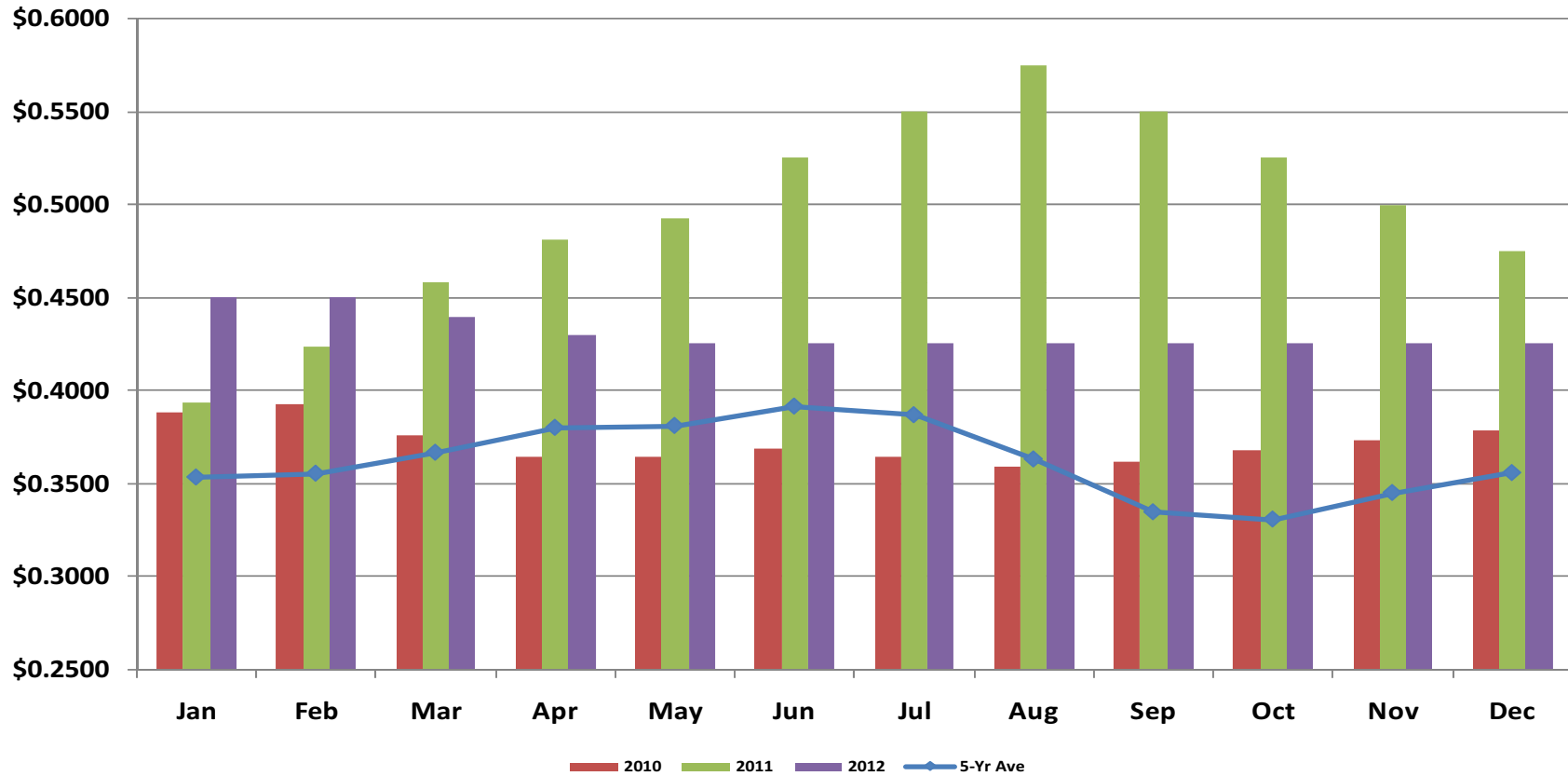
(Forecast Jun 2011 thru Dec 2012)



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NASS Dry Whey Price

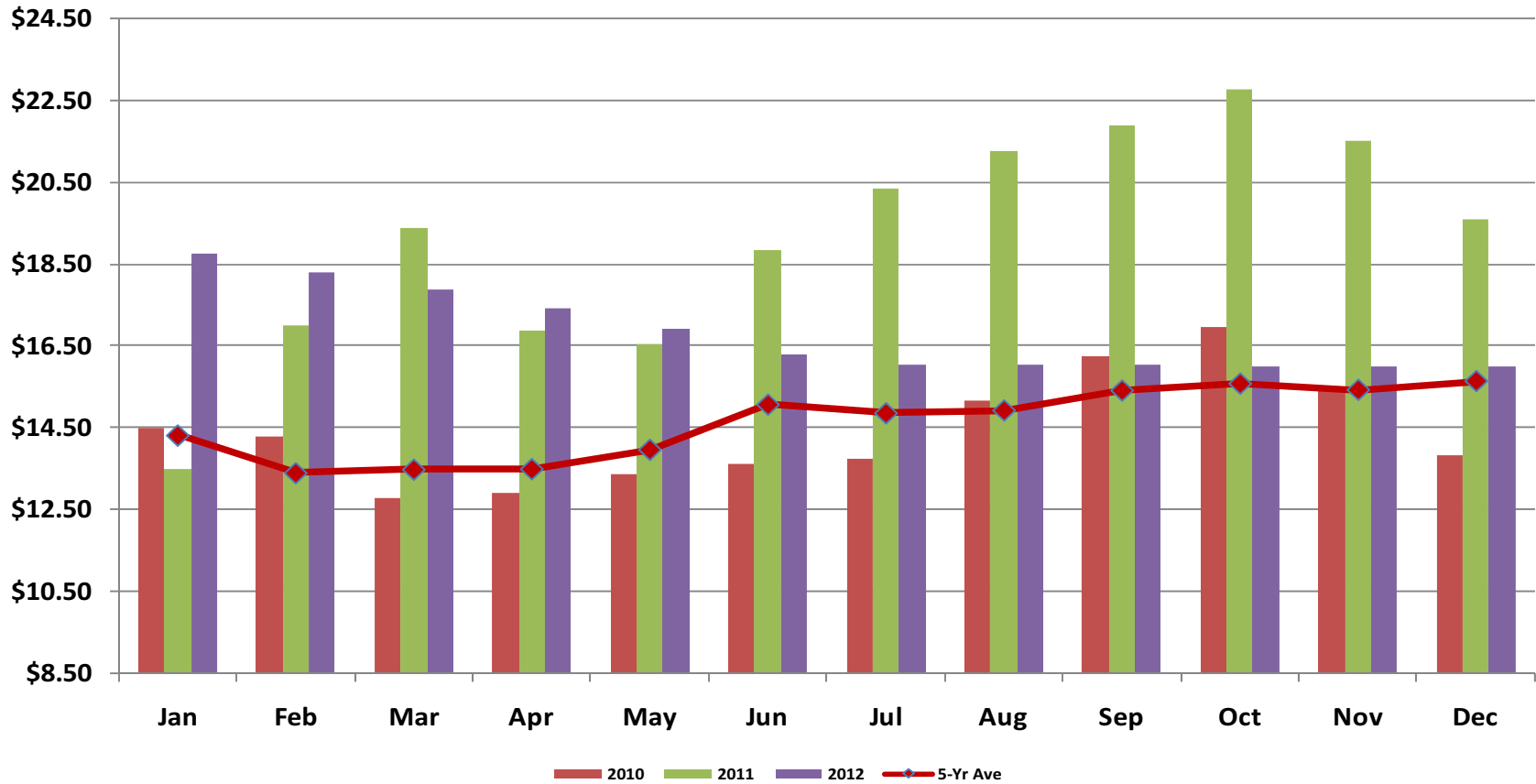
(Forecast Jun 2011 thru Dec 2012)



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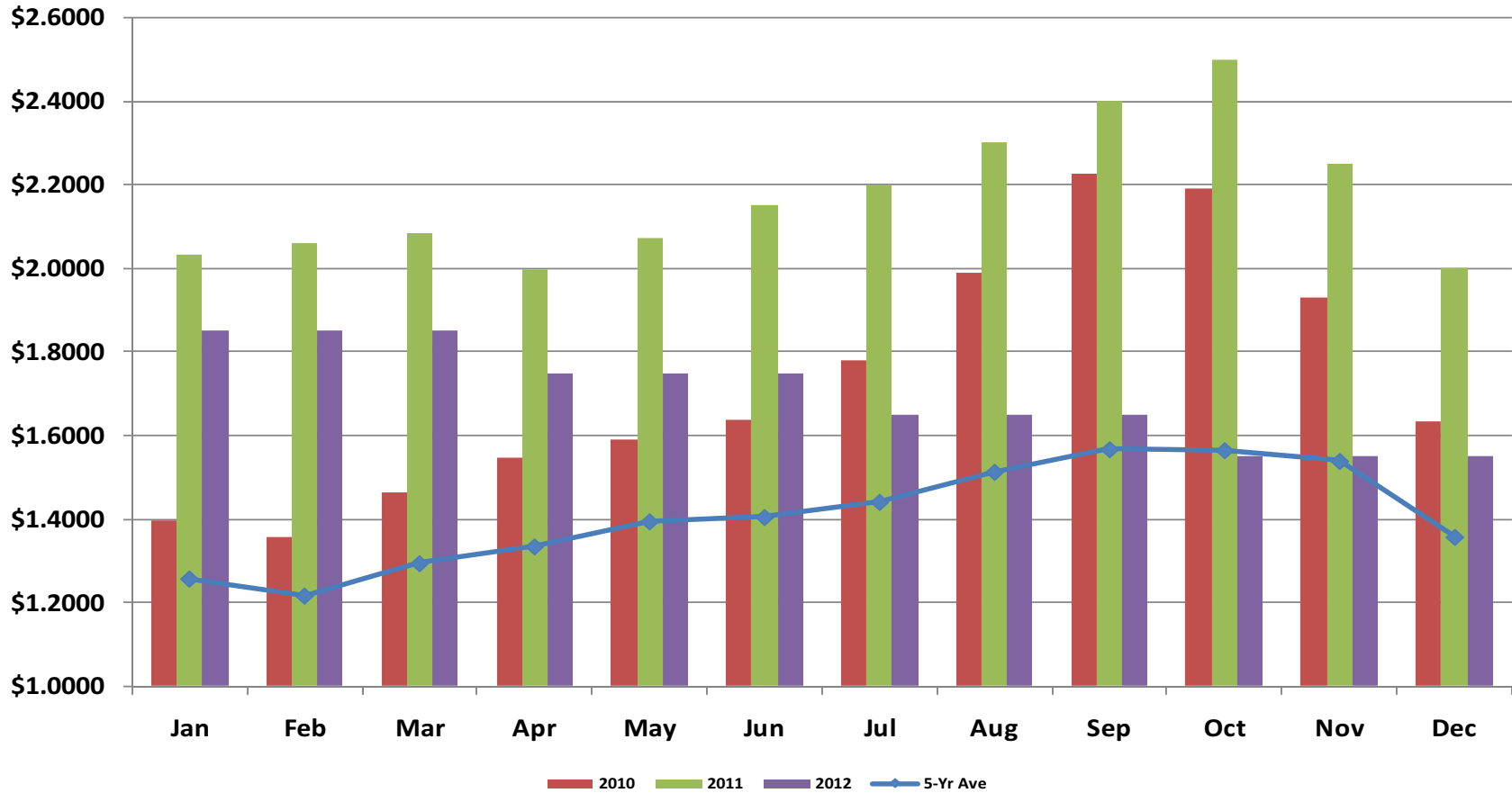
Class III Milk Price

(Forecast Jun 2011 thru Dec 2012)



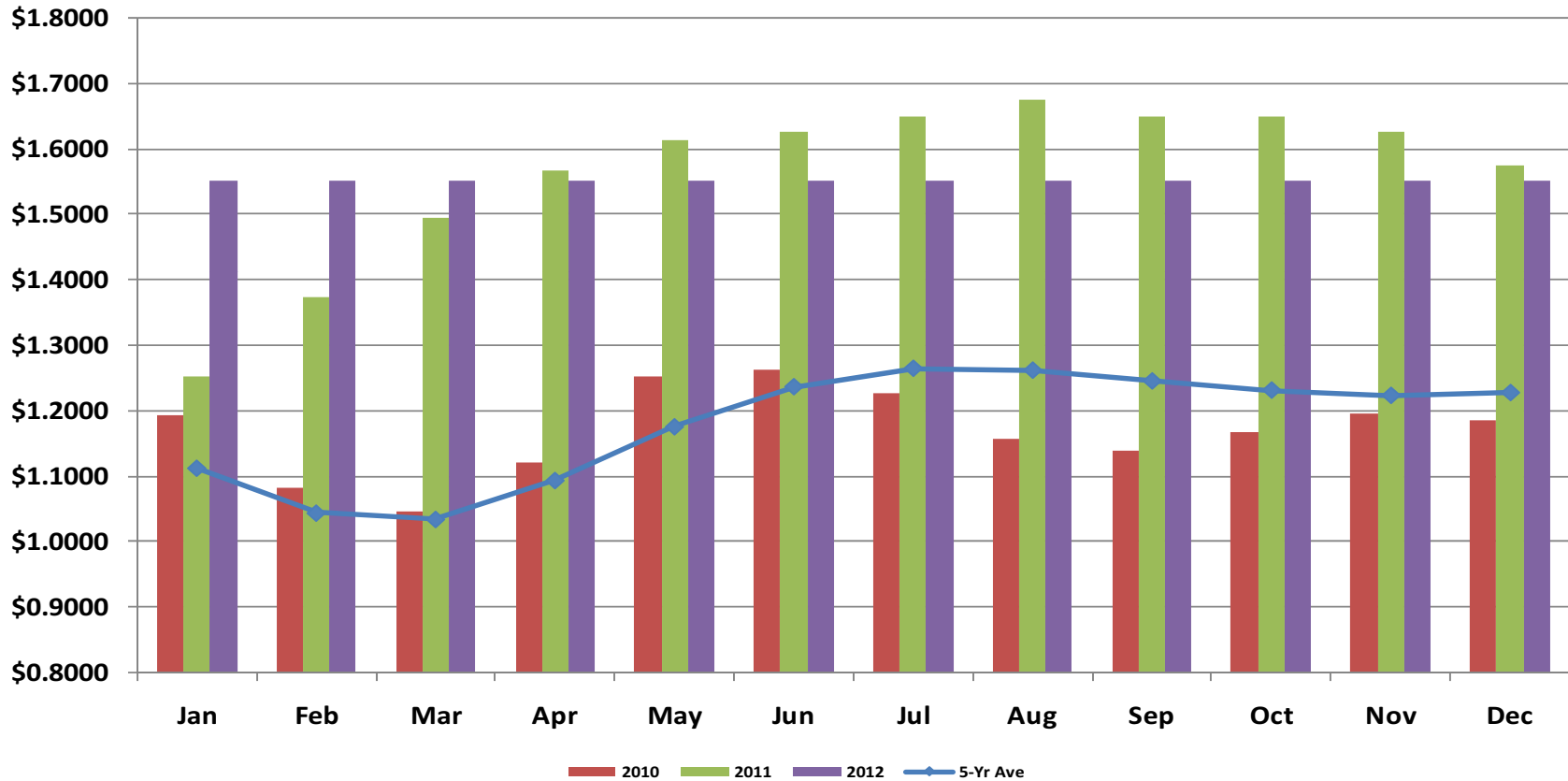
CME Butter Price

(Forecast Jun 2011 thru Dec 2012)



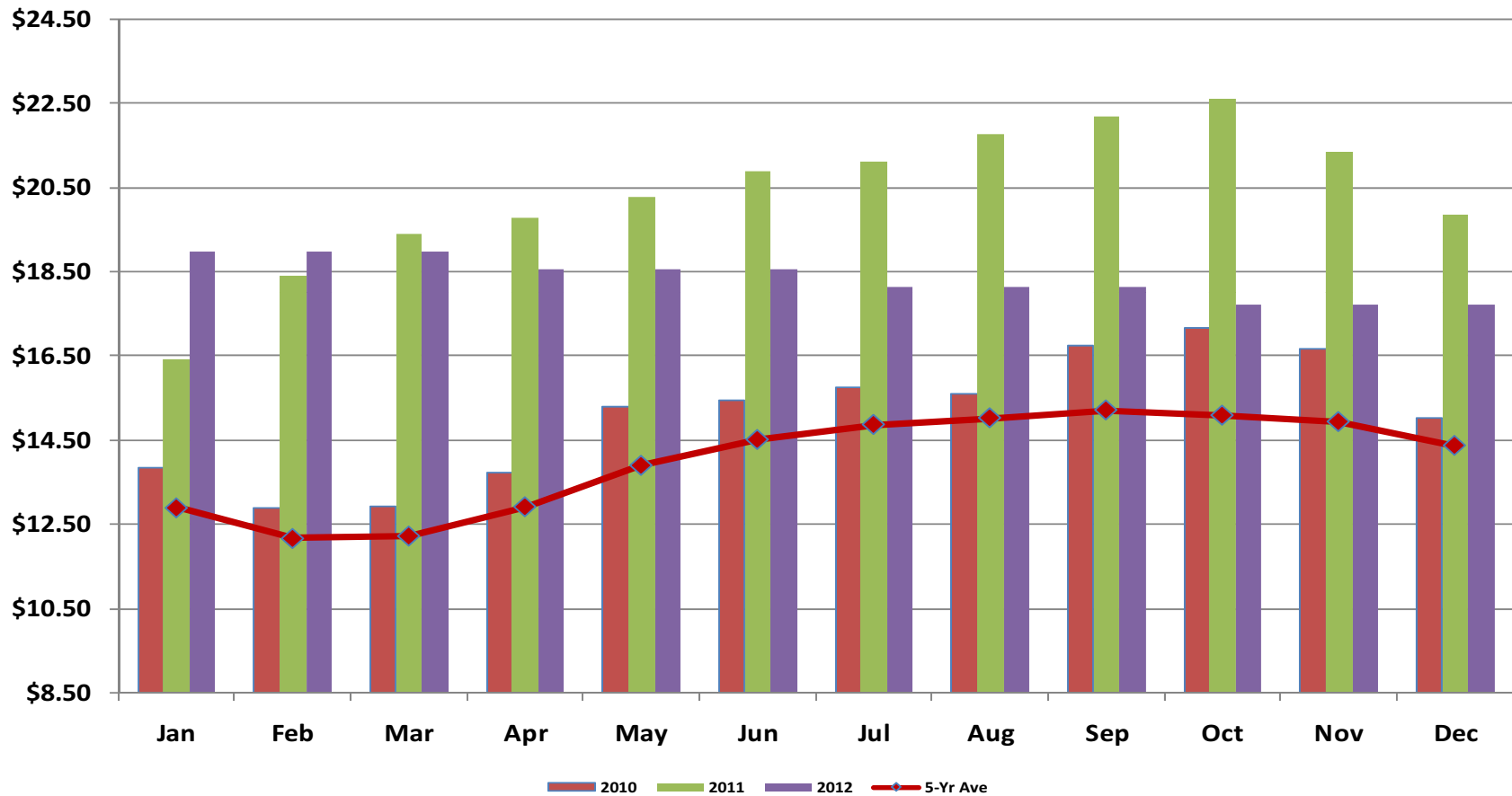
NASS Nonfat Dry Milk Price

(Forecast Jun 2011 thru Dec 2012)



Class IV Milk Price

(Forecast Jun 2011 thru Dec 2012)



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Month-by-month forecast

Monthly price forecast

CME Block Cheese Price			06/06/11				Forecast Jun 2011 thru Jun 2012					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
5-Yr Ave	\$1.4028	\$1.4423	\$1.3825	\$1.4266	\$1.5171	\$1.5538	\$1.5501	\$1.5829	\$1.6458	\$1.6244	\$1.6435	\$1.5750
2010	\$1.4536	\$1.4526	\$1.2976	\$1.4182	\$1.4420	\$1.3961	\$1.5549	\$1.6367	\$1.7374	\$1.7246	\$1.4619	\$1.3807
2011	\$1.5140	\$1.9064	\$1.8125	\$1.6036	\$1.6858	\$1.9500	\$2.0500	\$2.1000	\$2.2000	\$2.3000	\$2.0000	\$1.9500
2012	\$1.8750	\$1.8500	\$1.8000	\$1.7750	\$1.7000	\$1.6500						
NASS Whey Price												
5-Yr Ave	\$0.3533	\$0.3553	\$0.3665	\$0.3799	\$0.3809	\$0.3913	\$0.3867	\$0.3629	\$0.3346	\$0.3307	\$0.3449	\$0.3556
2010	\$0.3880	\$0.3925	\$0.3761	\$0.3643	\$0.3645	\$0.3688	\$0.3641	\$0.3590	\$0.3615	\$0.3676	\$0.3736	\$0.3789
2011	\$0.3935	\$0.4234	\$0.4578	\$0.4808	\$0.4929	\$0.5250	\$0.5500	\$0.5750	\$0.5500	\$0.5250	\$0.5000	\$0.4750
2012	\$0.4500	\$0.4500	\$0.4400	\$0.4300	\$0.4250	\$0.4250						
Class III Milk Prices												
5-Yr Ave	\$14.31	\$13.40	\$13.48	\$13.50	\$13.97	\$15.06	\$14.85	\$14.92	\$15.40	\$15.57	\$15.42	\$15.63
2010	\$14.50	\$14.28	\$12.78	\$12.92	\$13.38	\$13.62	\$13.74	\$15.18	\$16.26	\$16.94	\$15.44	\$13.83
2011	\$13.48	\$17.00	\$19.40	\$16.87	\$16.52	\$18.85	\$20.33	\$21.25	\$21.89	\$22.75	\$21.53	\$19.59
2012	\$18.77	\$18.30	\$17.87	\$17.41	\$16.90	\$16.29						
CME Butter Price												
5-Yr Ave	\$1.2582	\$1.2173	\$1.2949	\$1.3353	\$1.3950	\$1.4056	\$1.4416	\$1.5137	\$1.5677	\$1.5654	\$1.5395	\$1.3579
2010	\$1.3950	\$1.3561	\$1.4641	\$1.5460	\$1.5896	\$1.6380	\$1.7787	\$1.9900	\$2.2262	\$2.1895	\$1.9295	\$1.6327
2011	\$2.0345	\$2.0622	\$2.0863	\$1.9970	\$2.0724	\$2.1500	\$2.2000	\$2.3000	\$2.4000	\$2.5000	\$2.2500	\$2.0000
2012	\$1.8500	\$1.8500	\$1.8500	\$1.7500	\$1.7500	\$1.7500						
NASS Nonfat Dry Milk Price												
5-Yr Ave	\$1.1126	\$1.0442	\$1.0346	\$1.0938	\$1.1756	\$1.2367	\$1.2646	\$1.2618	\$1.2454	\$1.2315	\$1.2235	\$1.2277
2010	\$1.1929	\$1.0812	\$1.0454	\$1.1208	\$1.2520	\$1.2631	\$1.2277	\$1.1557	\$1.1383	\$1.1674	\$1.1953	\$1.1848
2011	\$1.2530	\$1.3728	\$1.4945	\$1.5680	\$1.6120	\$1.6250	\$1.6500	\$1.6750	\$1.6500	\$1.6500	\$1.6250	\$1.5750
2012	\$1.5500	\$1.5500	\$1.5500	\$1.5500	\$1.5500	\$1.5500						
Class IV Milk Prices												
5-Yr Ave	\$12.89	\$12.17	\$12.22	\$12.92	\$13.90	\$14.51	\$14.87	\$15.03	\$15.21	\$15.09	\$14.94	\$14.37
2010	\$12.89	\$12.17	\$12.22	\$12.92	\$13.90	\$14.51	\$14.87	\$15.03	\$15.21	\$15.09	\$14.94	\$14.37
2011	\$16.42	\$18.40	\$19.41	\$19.78	\$20.29	\$20.91	\$21.13	\$21.77	\$22.19	\$22.62	\$21.34	\$19.85
2012	\$19.00	\$19.00	\$19.00	\$18.58	\$18.58	\$18.58	\$18.16	\$18.16	\$18.16	\$17.73	\$17.73	\$17.73



Summary of internal forecasts

Summary of internal forecasts prepared by five in-house dairy economists and Jerry Dryer

Quarterly Analysis		05/31/11			
6 of 6 Analysts					
Milk Produ	1Q11	2Q11	3Q11	4Q11	2011
High	48,426	50,766	48,910	48,279	196,381
Low	48,426	50,245	48,289	48,135	195,095
Average	48,426	50,518	48,619	48,186	195,749
Block Chee	1Q11	2Q11	3Q11	4Q11	2011
High	\$1.7443	\$1.7268	\$1.9917	\$2.1250	\$1.8969
Low	\$1.7443	\$1.6426	\$1.6462	\$1.6209	\$1.6635
Average	\$1.7443	\$1.6867	\$1.8278	\$1.7958	\$1.7637
Butter	1Q11	2Q11	3Q11	4Q11	2011
High	\$2.0610	\$2.0735	\$2.3000	\$2.2500	\$2.1711
Low	\$2.0610	\$2.0067	\$2.0028	\$1.9313	\$2.0004
Average	\$2.0610	\$2.0515	\$2.1560	\$2.1122	\$2.0952
Nonfat Dry	1Q11	2Q11	3Q11	4Q11	2011
High	\$1.3734	\$1.6014	\$1.6833	\$1.6583	\$1.5791
Low	\$1.3734	\$1.5840	\$1.5333	\$1.3867	\$1.4694
Average	\$1.3734	\$1.5958	\$1.5944	\$1.5329	\$1.5241
Whey	1Q11	2Q11	3Q11	4Q11	2011
High	\$0.4249	\$0.5019	\$0.5583	\$0.5179	\$0.5008
Low	\$0.4249	\$0.4903	\$0.4850	\$0.4400	\$0.4600
Average	\$0.4249	\$0.4948	\$0.5124	\$0.4886	\$0.4802
Class III	1Q11	2Q11	3Q11	4Q11	2011
High	\$16.63	\$17.49	\$20.37	\$21.29	\$18.95
Low	\$16.63	\$16.83	\$15.83	\$15.83	\$16.28
Average	\$16.63	\$17.14	\$18.34	\$18.05	\$17.54
Class IV	1Q11	2Q11	3Q11	4Q11	2011
High	\$18.07	\$20.31	\$22.05	\$21.62	\$20.51
Low	\$18.07	\$20.07	\$19.93	\$18.78	\$19.21
Average	\$18.07	\$20.23	\$20.62	\$20.11	\$19.76



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