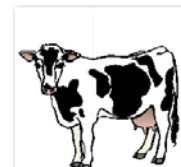
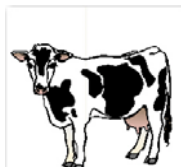


The Milk Market News



December 19, 2011

Price Outlook—The Southeast Uniform milk price for November was \$21.63, down 16 cents from October and \$2.01 higher than November 2010. November’s Class III price was \$19.07, up \$1.04 from October, and \$3.63 higher than November a year ago. The Class IV price was down 54 cents from October to \$17.87, and \$1.19 higher than November 2010. Class I utilization was 70.20%, up 3.47% from October, and slightly lower than November a year ago. The butterfat price was \$1.9527, down 10 cents from last month and 38 cents lower than November 2010. The November Class I price was \$22.25. The December Class I price is \$22.27, up 2 cents from November and \$1.23 higher than December 2010. The Class I Mover price for November is \$18.47, up 2 cents from November. The Class I Mover averaged \$19.13 for 2011, the highest annual average ever. November milk production in the 23 major states was up 2.2% from November 2010. Milk per cow was 1,738 pounds, up 16 pounds from November 2010. There were 108,000 more cows than last November, and the same number as October. This the first month in the last thirteen that cow numbers have not increased. The U. S. average price for Alfalfa hay was \$203 per ton, up 72% from a year ago with the largest increases in the western states. California and Idaho prices were up 88%; Arizona up 80%; New Mexico up 79%; and Texas up 44%. Wisconsin prices were up 14% while New York was up 2%. Class III futures for 2012 averaged \$17.06 today, 17 cents higher than a month ago. The range for 2012 is only 33 cents over the twelve months. All 2012 months except January and November closed higher today than a month ago. Class III milk futures prices on December 19: December \$18.66, up 39 cents from a month ago; January 2012, \$17.09, down 18 cents; February \$17.26, up 51 cents; March \$17.12, up 46 cents; April \$16.97, up 31 cents; May \$16.93, up 25 cents; June \$17.03, up 38 cents; July \$17.09, up 9 cents; August \$17.18, up 8 cents; September \$17.19, up 9 cents; October \$17.04, up 5 cents; November \$16.98, down 1 cent; and December 16.93, up 3 cents. October butter production was up 19.6% from October a year ago. Record butter prices have spurred production. NDM/SMP production was up 8% from a year ago while total cheese production was up 1.7%. Cheddar production was down 5.8% with Mozzarella up 1.4% and all other varieties up 8%. Cheese and butter stocks declined seasonally in October with cheese inventories above historical levels and butter inventories below historical levels. American cheese inventories on October 31 were 9.1% above the 5-year average for that date. Total cheese inventories were 13.6% above the 5-year average. Butter inventories were 19.1% below the 5-year average. American cheese use was down 4.3% for the third quarter of 2011, the worst quarter in four years. Disappearance of other cheese varieties was up 1.8% resulting in use of all varieties being down 0.6% for the quarter. For the first half of 2011, cheese use ran nearly 5% higher than 2010. Butter use was up 12.2% from a year ago in the third quarter with NDM/SMP use up 11%. Fluid milk sales were down 1.3% in the third quarter. Total export value for October was down 2% from September and 9.1% below October 2010. NDM/SMP exports, the largest export category, were down 30.1% from last year’s record. Cheese exports in October were up 22.2% from a year ago. Total export value for the first ten months of 2011 is up 29% from last year. This 10-month total is already a record for annual export value with two months left in the year. Dairy cow slaughter for October was 243,000 head, 4,000 head less than September and 12,000 more than October 2010. The Congressional Super Committee’s failure to reach agreement on deficit cutting measures has likely stopped for the immediate future any movement on the dairy reform legislation.

| Southeast Federal Order Prices | | | | | | |
|--------------------------------|---------------|---------------|-----------------|----------------|-----------------|----------------------|
| Month | Uniform Price | Class I Price | Class III Price | Class IV Price | Percent Class I | Butterfat Price (lb) |
| June 11 | 22.93 | 24.12 | 19.11 | 21.05 | 61.71 | 2.3474 |
| July 11 | 23.69 | 24.83 | 21.39 | 20.33 | 64.06 | 2.3142 |
| Aug 11 | 24.52 | 25.23 | 21.67 | 20.14 | 72.22 | 2.2944 |
| Sept 11 | 24.06 | 25.58 | 19.07 | 19.53 | 71.51 | 2.2589 |
| Oct 11 | 21.79 | 23.36 | 18.03 | 18.41 | 66.63 | 2.0561 |
| Nov 11 | 21.63 | 22.25 | 19.07 | 17.87 | 70.20 | 1.9527 |

What Is The Market Offering For Milk To Be Sold in March?

Example: It's Dec. 19 and Mar. Class III Milk Futures are trading at \$17.12. Local Mar. basis estimate is +\$2.00.

| | | | | | |
|------------------------------------|-----------|-------|--------------------------------|---------|---------|
| Then in March: If March Futures | = | | \$18.50 | \$17.00 | \$15.50 |
| and actual blend price | = | | 20.50 | 19.00 | 17.50 |
| Sample Strategies (Executed 12/19) | | | Realized Prices for March Milk | | |
| 1) Sold Futures | @ | 17.12 | \$19.12 | \$19.12 | \$19.12 |
| 2) Bought Put | \$16.00 @ | 0.35 | 20.15 | 18.65 | 17.65 |
| 3) Bought Put | \$16.50 @ | 0.52 | 19.98 | 18.48 | 17.98 |
| 4) Bought Put | \$17.00 @ | 0.74 | 19.76 | 18.26 | 18.26 |
| 5) Synthetic Put: | | | | | |
| Sold Futures | @ | 17.12 | | | |
| Bought Call | \$18.25 @ | 0.39 | 18.98 | 18.73 | 18.73 |

What Is The Market Offering For Milk To Be Sold in April?

Example: It's Dec. 19 and Apr. Class III Milk Futures are trading at \$16.97. Local Apr. basis estimate is +\$2.00.

| | | | | | |
|------------------------------------|-----------|-------|--------------------------------|---------|---------|
| Then in April: If April Futures | = | | \$18.50 | \$17.00 | \$15.50 |
| and actual blend price | = | | 20.50 | 19.00 | 17.50 |
| Sample Strategies (Executed 12/19) | | | Realized Prices for April Milk | | |
| 1) Sold Futures | @ | 16.97 | \$18.97 | \$18.97 | \$18.97 |
| 2) Bought Put | \$15.75 @ | 0.45 | 20.05 | 18.55 | 17.30 |
| 3) Bought Put | \$16.25 @ | 0.63 | 19.87 | 18.37 | 17.62 |
| 4) Bought Put | \$16.75 @ | 0.85 | 19.65 | 18.15 | 17.90 |
| 5) Synthetic Put: | | | | | |
| Sold Futures | @ | 16.97 | | | |
| Bought Call | \$18.00 @ | 0.56 | 18.91 | 18.41 | 18.41 |

What Is The Market Offering For Milk To Be Sold in May?

Example: It's Dec. 19 and May Class III Milk Futures are trading at \$16.93. Local May basis estimate is +\$2.00.

| | | | | | |
|------------------------------------|-----------|-------|------------------------------|---------|---------|
| Then in May: If May Futures | = | | \$18.50 | \$17.00 | \$15.50 |
| and actual blend price | = | | 20.50 | 19.00 | 17.50 |
| Sample Strategies (Executed 12/19) | | | Realized Prices for May Milk | | |
| 1) Sold Futures | @ | 16.93 | \$18.93 | \$18.93 | \$18.93 |
| 2) Bought Put | \$15.75 @ | 0.54 | 19.96 | 18.46 | 17.21 |
| 3) Bought Put | \$16.25 @ | 0.73 | 19.77 | 18.27 | 17.52 |
| 4) Bought Put | \$16.75 @ | 0.96 | 19.54 | 18.04 | 17.79 |
| 5) Synthetic Put: | | | | | |
| Sold Futures | @ | 16.93 | | | |
| Bought Call | \$18.00 @ | 0.63 | 18.80 | 18.30 | 18.30 |

