

Brock Dairy Market Intelligence

June 13, 2008

Market Update:

Let's focus on cheese & butter this week & then review powder & whey in the next report. Before doing so, we already know that for the balance of the year, milk per cow is on a slow growth trend, expansion is slow and CWT will be taking out another round of cows.

With several Class III contracts above \$20.00 cwt., on the surface the interest in retiring cows through CWT may not offer much interest. However, this last blast of flooding and sharply higher grain prices just might bring in a flood of bids to take cows.

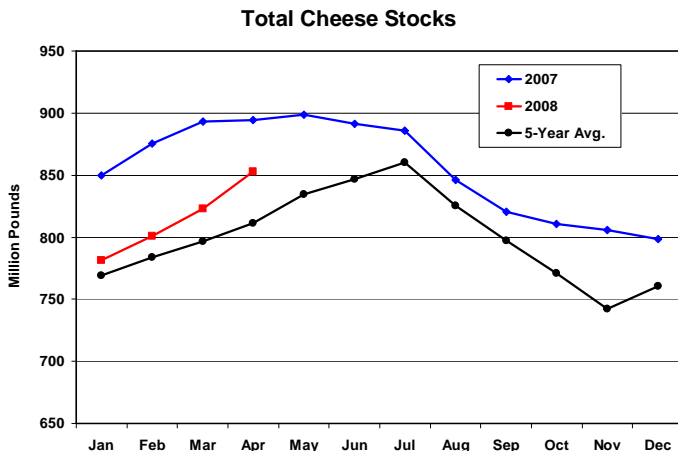
Does the cow know the difference between \$7.00 corn & \$3.00 corn? Does the cow produce over 100% more milk to nearly match the percent change in corn or has milk prices made up for the feed adjustment? More later!

Spot CME cheese prices continued to slide this week off from their record price of \$2.285 to settle at \$2.04. Old support used to be \$1.80, with cheese stocks still relatively low and exports still robust; \$2.00 may be the new support level.

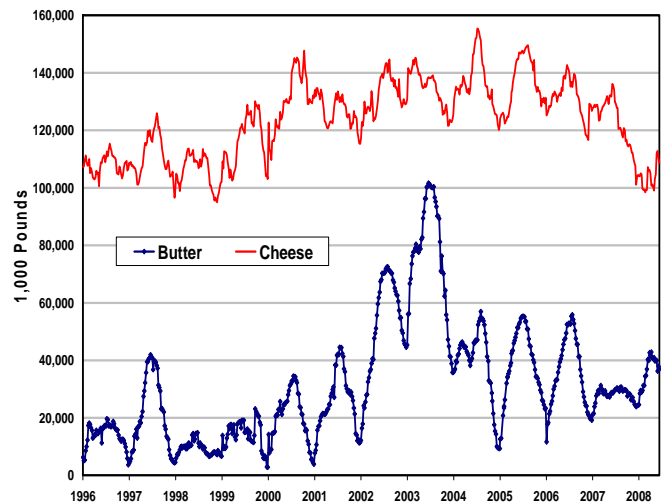
When reviewing sales and demand, cheese & butter stocks does not offer measureable price risk to the downside. Sure, the dollar could trend higher but it remains low relative to the countries that have been shopping for US dairy products.

With block cheese at roughly \$2.00/lb and butter at roughly \$1.45, you have to ask yourself what is the upside vs. the downside regarding price direction. In our opinion, both seem fairly priced with more upside than downside.

Cheese processors in our opinion have some real risk over the balance of the year. Things can turn quickly for a sector of the market so we hope their prepared. The meat industry just



**Weekly Cold Storage Holdings
1996 - Present**



can't seem to get a break and have been fighting lower margins and risk from several sides.

A new risk:

With California declaring a state wide drought and the severe flooding throughout the Midwest, hay prices are already climbing. The hay season is narrow so don't hesitate if you believe to be short, buy it if necessary.

What can you say about corn & soybeans after the last two weeks. Sure, at current prices and let's not forget to apply what is the upside vs. the downside. Until soybean planting is complete and we get closer to pollination for corn, sure; there is still some upside.

Short or smaller supplies of feed grains & protein appear likely for another year. That alone places some limitations to the downside.

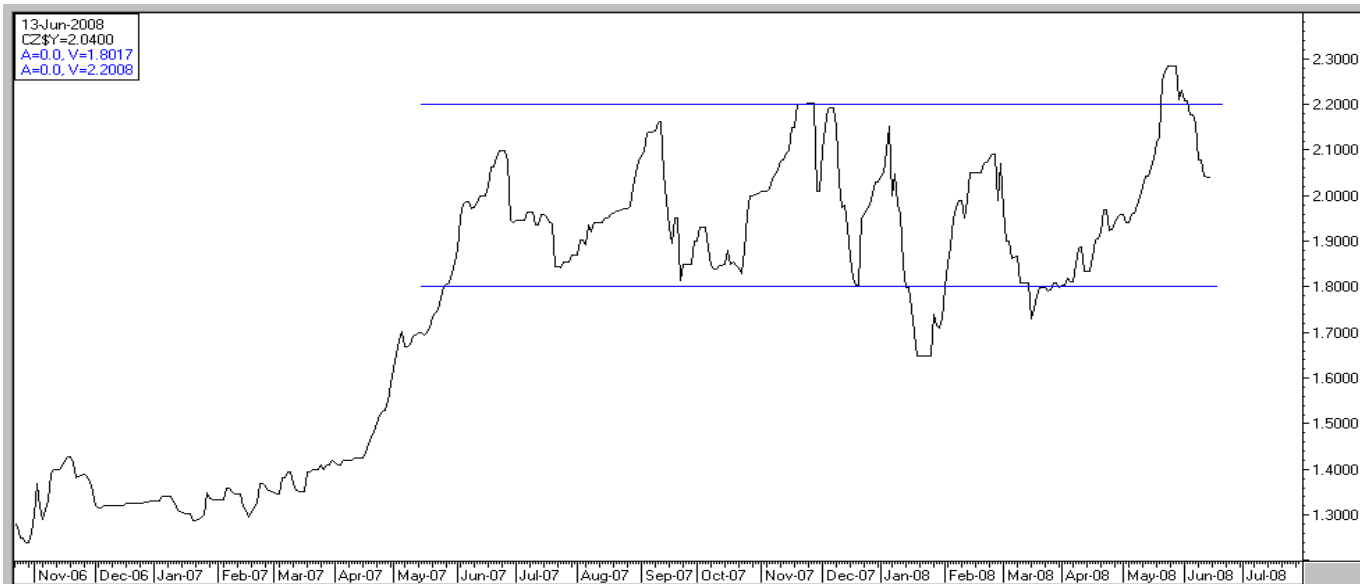
The food for fuel debate rarely gets both sides of the story fair or even coverage in the media. Posted on the Dept. of Energy website is a letter from the Secretary's of DOE & USDA. Read it through to the end to get a good understanding of pretty complex economics.

http://www.doe.gov/media/Secretaries_Bodman_and_Schafer_Ltr_to_Sen_Bingaman.pdf

Cash Cheese

Block cheese continued to slip this past week mainly for lack of buyers. The hard lessons of 2004 for cheese processors continue to haunt them and they continue to not be a risk taker above \$2.10 block cheese. Other component prices appear stable which likely kept Class III from posting any large losses. Component economics is starting to become more closely looked at by the industry especially since early year exports for US dairy products are simply, outstanding YTD.

Butter could still make a move through the end of summer toward \$2.00 that would overall put additional value to the complex.



Current Market Prices

Commodity	This Week	2 Weeks Ago	Change
Supreme S. Cen. KS Alfalfa (ton)	\$182.50	\$147.50	\$35.00
Tulare-Visalia Supreme Ca. Alfalfa	\$264.00	\$264.00	unch
Whole cottonseed (ton, Memphis)	\$400.00	\$335.00	\$65.00
Corn Gluten Meal (60 percent, ton, IL)	\$500.00	\$512.50	-\$12.50
Distillers Dried Grain (ton, Centr. IL)	\$166.50	\$160.00	-6.50
Soybean Meal (48%) Illinois (Tues.)	\$367.50	\$321.00	\$46.50

Source: United States Department of Agriculture

Current Dairy Market Prices

Commodity	This Week	2 Weeks Ago	Change
CME Block Cheese (avg. to Wed.)	\$2.066	\$2.285	-\$0.219
CME Barrel Cheese (avg. to Wed.)	\$2.15	\$2.25	\$0.10
CME Butter (avg. to Wed.)	\$1.4708	\$1.475	-\$0.004
Nearby Class III Futures (Wed.)	\$20.08	\$20.82	-\$0.74
Dry Whey- FOB Central	\$0.2625	\$0.26	\$0.0025
Non-Fat Dry Milk—California Manufacturing Plants	\$1.3421	\$1.3209	\$0.021

USDA-ERSFORECASTS

	II-2008	III-2008	IV-2008
Commercial Use (billion lbs.)	47.7	49.5	50.3
Class III Price (average)	\$17.29	\$16.76	\$16.85

Current Milk Market Positions

Milk Coverage...

On The Feed-Purchasing Side

Corn:

2nd quarter: 100%
3rd quarter: 33%:

Short CZ08 \$7.00 Call Option
Short CZ08 \$4.70 Put Option

Soybean Meal:
2nd quarter: 100%
3rd quarter: 33%

Cottonseed: Buy hand-to-mouth