

Brock Dairy Market Intelligence

February 25, 2011

Market Update:

What can you say about a four-day trading week that saw corn trade to its maximum daily limit two times; in opposite directions! While we knew in the back of our minds this bull market is not dead yet, we didn't expect the surge on Friday to come from out of nowhere.

Last Friday, we did recommend a 10% cash sale of milk for the months of March—June through your processor at basically \$18.21/cwt. This was a very small sale overall or just 3% of annual production but we now have exactly 30% priced at an average price of \$14.95. The current 12-month clock value for 2011 is \$16.93 with 70% of this year's milk yet to price. These months (March-June) were especially targeted due to the fact that we see price risk to the downside through the spring flush months and relative to cheese prices not being sustainable at the high \$1.90 price level.

We do not dare touch milk sales for the second half of the year or July—December at this time as the need for a big corn crop is just too much to risk pricing milk that might be dependent on new crop corn as part of a feed ration at this time. While we and most everyone else in the industry believes we will get additional corn acres this year, getting back to an adequate carryover supply is another issue altogether as pointed out in last week's Brock Report. To offer a brief summary of that report, US corn producers are either going to raise an average crop this year or we will run out of corn.

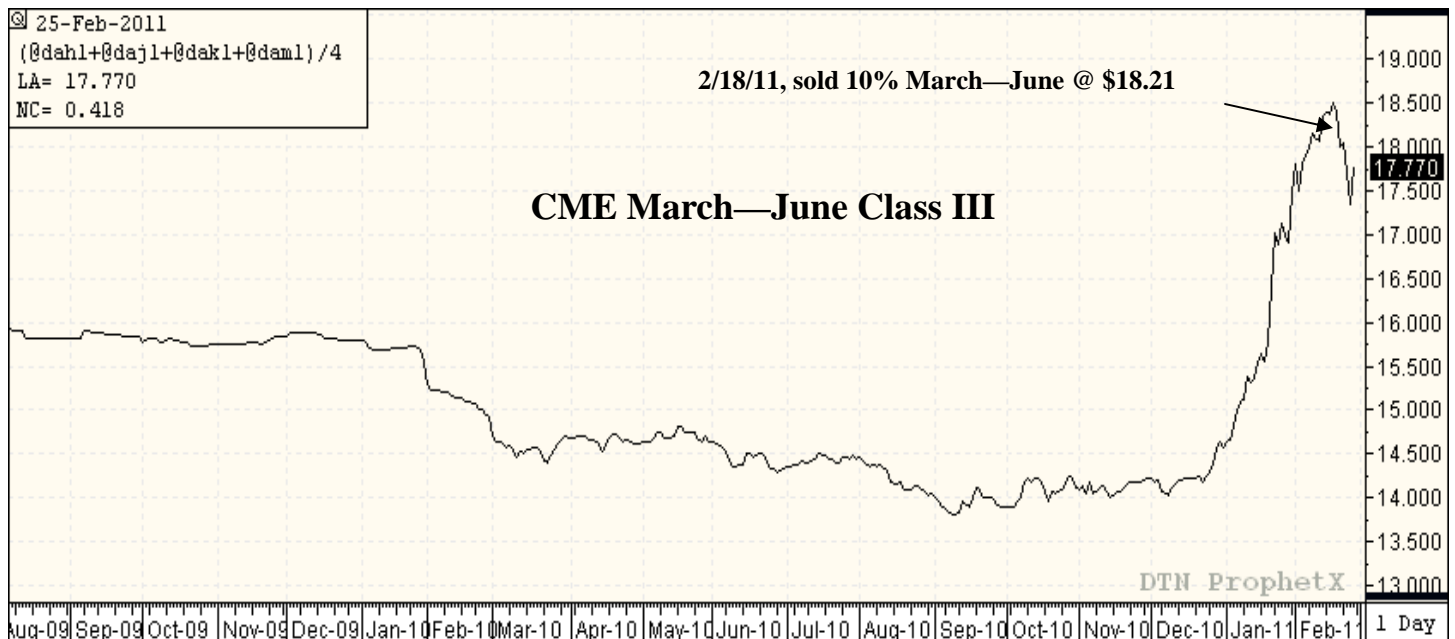
Let's talk about corn demand and soy protein demand. One year ago, the pork industry had little to zero interest in DDG being included as part of a feed ration. As a result of China backing off from the use of DDG, the pork industry has taken

another look at DDG and has added it to a feed ration that is more likely based on the price of corn. The science is one part of the inclusion driving this but another that we have to consider is just how much corn and soy protein does the use of DDG displace.

The short answer is that it is a very difficult to determine. USDA has been struggling with this issue for about six years but this new demand for DDG from pork industry causes adjustments to everyone's feed usage estimates. The data is highly protected by private companies that makes forecasting that much more difficult. However, what we do know is that by adding a low dose of DDG such as 10%, there is roughly 10% less corn on average used but upward toward 20% - 22% less soy protein. Keep in mind that another part of the difficulty is that pigs have several feed cycles and they all have a different feed ration.

The biggest unknown relative to developing an estimate for less corn and soy protein being used due to the high price of corn is the number of hog operations & the number of hogs using a 10% ration of DDG? That we do not know or could even offer a reasonable guess!

We strongly believe we have reduced consumption of corn or that the tight supply has been somewhat rationed. The difficulty is how much and by whom. This will eventually show up in a USDA report but not likely for a few more months. This is what is referred to as a "forward looking" statement that has a risk of being both correct or incorrect but the intent was to offer explanation that supply rationing of corn is taking place. However, the rationing is not coming from the ethanol industry and that debate is just heating up!



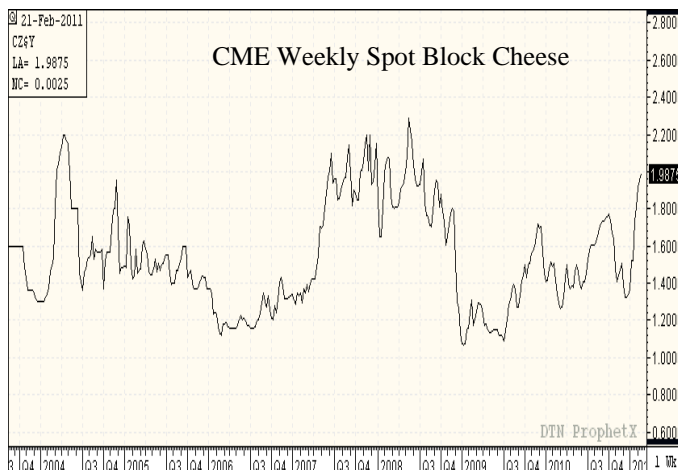
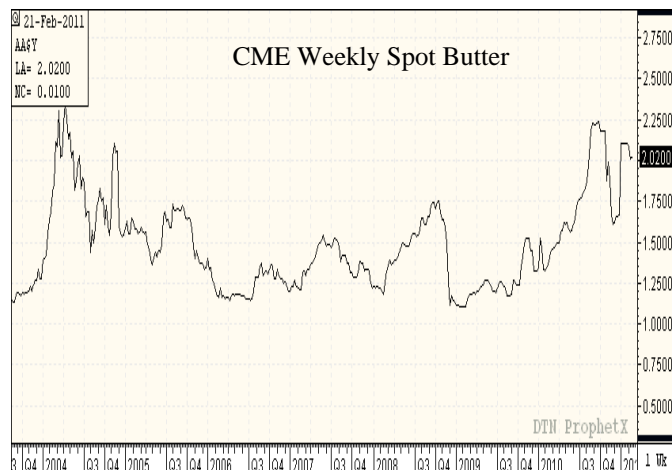
Cash Cheese

The last Brock Dairy Report stated that we believe cheese to be the weakest link over the next few weeks and months relative to dairy products and we are sticking with that thought. However, since then we have seen powder and whey trade a little sloppy to soft with cheese generally higher. We did see cheese turn down just slightly that had a big impact on Class III but remains in the high \$1.90 range. In fact, March—June Class III has lost about \$1.00/cwt over the last week but recovered today with most other commodities having a strong up day.

We are sticking with the thought that \$2.00 block cheese relative to roughly a \$1.70 average price forecast from USDA will eventually give way and adjust to the \$1.80 range as we get into the spring months of March—May. A growing threat relative to consumers consumption of cheese may be the price of gasoline. We all learned from 2008 when gasoline hit \$4.00 per gallon that driving to the mall stopped, going out to eat stopped and going about anywhere, stopped. Aside from the specialty cheese consumer that seems to be married to brand loyalty, branded non-specialty cheese may have a challenge ahead of itself as the consumer adjusts dollars and the cheapest store brand cheese may become the winner.

No one wants to see \$4.00 gasoline again but the food industry is going to have to develop a Plan B and make price adjustments for the retail side as per whatever the wholesale market has already adjusted to.

There is risk of losses as well as profits when trading futures and options.



Current Market Prices

Commodity	This Week	2 Weeks Ago	Change
Supreme S. Cen. KS Alfalfa (ton)	\$142.50	\$142.50	unch
Tulare-Visalia Supreme Ca. Alfalfa	\$250.00	\$269.00	-\$19.00
Whole cottonseed (ton, Memphis)	\$236.00	\$230.00	\$6.00
Corn Gluten Meal (60 percent, ton, IL)	\$535.00	\$530.00	\$5.00
Distillers Dried Grain (ton, Centr. IL)	\$185.00	\$185.00	unch
Soybean Meal (48%) Illinois (Tues.)	\$334.00	\$360.00	-\$26.00
Canola Meal/San Joaquin Valley Truck	\$275.00	\$275.00	unch

Source: United States Department of Agriculture

Current Dairy Market Prices

Commodity	This Week	2 Weeks Ago	Change
CME Block Cheese (avg. to Wed.)	\$1.985	\$1.87	\$0.115
CME Barrel Cheese (avg. to Wed.)	\$1.945	\$1.814	\$0.131
CME Butter (avg. to Wed.)	\$2.006	\$2.10	-\$0.094
Nearby Class III Futures (Wed.)	\$17.01	\$16.65	\$0.36
Dry Whey- FOB Central	\$0.395	\$0.385	\$0.01
Non-Fat Dry Milk—California Manufacturing Plants	\$1.33	\$1.295	\$0.035

USDA-ERS FORECASTS

	I-2011	II-2011	III-2011
Commercial Use (billion lbs.)	45.7	47.9	48.4
Class III Price (average)	\$13.80	\$14.80	\$15.35

Current Milk Market Positions

Milk Coverage...

* March — June, 2011, 45% @ average price of \$14.98
 July — August, 35% @ average price of \$14.98
 Sept — Dec, 10% @ average price of \$15.37
 * does not include processor fee

On The Feed-Purchasing Side

Corn:

100% through the end of the 1st quarter

Soybean Meal:

100% through the end of the 1st quarter

Cottonseed: Buy hand-to-mouth