

NATIONAL DAIRY MARKET AT A GLANCE**CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (9/24)**

BUTTER: Grade AA closed at \$1.7500. The weekly average for Grade AA is \$1.7800 (+.0008).

CHEESE: Barrels closed at \$1.5025 and blocks at \$1.5675. The weekly average for barrels is \$1.5095 (-.0050) and blocks, \$1.5675 (N.C.).

NONFAT DRY MILK: Extra Grade closed at \$0.8500 and Grade A at \$0.8500. The weekly average for both Extra Grade and Grade A is \$0.8500 (N.C.).

BUTTER: The butter market is unsettled. After increasing ten of eleven sessions (8/23 - 9/17) the CME cash price for butter decreased each session this week. Churning activity across the country ranges from lighter in the East to heavier in the West where milk and cream supplies are reported as heavy. Butter inventories lag year-ago levels, but they are more than sufficient to meet current needs. Most retailers are preparing for Thanksgiving and year-end holidays. Packagers are increasing schedules to meet these expected increases.

CHEESE: The cheese market is unsettled. A larger volume of cheese (62 loads) was cleared on the Chicago Mercantile Exchange this week as sellers balance supplies with orders. Milk supplies tightened with the reopening of schools and larger seasonal milk shipments to the Southeast. However, the tight milk volumes have been far too short a duration (less than the 30 days maximum) for current cheddar sold on the Chicago Mercantile Exchange. Natural interest is typically moderate. Process is steady to often slower seasonally. Holiday products are being prepared and shipped.

FLUID MILK: Milk production is mostly steady with some increases noted in California and the Southeast and some decreases noted in New Mexico and parts of the Northeast. Shipments of fluid milk to Florida are declining, encouraging fluid milk intakes at some manufacturing plants outside the region to increase. Fluid milk movement into Class I is unchanged for the good demand from retailers and schools. Cream supplies are more available than the week prior. Demand for cream is most evident from cream cheese producers as handlers gear up for the holidays. Cream is also steadily moving into churns and some ice cream operations. Although the CME AA butter average moved higher, multiples are trending somewhat lower, demonstrating reduced strength in the cream market compared to butter. Condensed skim markets are generally steady.

DRY PRODUCTS: Movement of dry products during the current week is generally light. NDM demand domestically is hampered by excessive supplies of CCC exchange NDM traded on the resale market. Export demand for U.S. NDM is improving yet whether this outlet will continue to be available is questionable. NDM production is steady to higher. Buttermilk prices are unchanged for the lackluster interest. Supplies of NDM are often more price attractive, displacing dry buttermilk demand. Whey prices are higher in the West and unchanged elsewhere. Whey production is trending steady to higher as more milk flows into the cheese vat. WPC prices are unchanged with resale trades noted below the average. Offerings of Canadian WPC into the U.S. are

also noted. The lactose market is weak with light trading as buyers and sellers commence negotiations for the fourth quarter.

CCC: For the week of September 20 - 24, CCC purchases total 3,370,755 pounds of Western NDM; 2,778,987 pounds of NDM were purchased under price support with 591,768 pounds purchased under Invitation 080 to Announcement FMP1.

ERRATUM: In the Report 37 National Dairy Market at a Glance, CCC purchases were listed for the week of September 13 - 17 but incorrectly dated as the week of September 6 - 10.

AUGUST MILK PRODUCTION (NASS): Milk production in the 20 major states during August totaled 12.4 billion pounds, up 1.5% from August 2003. July revised production, at 12.5 billion pounds, was up 1.0% from July 2003. The July revision represented an increase of 36 million pounds or 0.3% from last month's preliminary production estimate. Production per cow averaged 1,595 pounds for August, 24 pounds (1.5%) above August 2003. The number of cows on farms was 7.77 million head, 5,000 head less than August 2003, but 7,000 head more than July 2004.

DAIRY OUTLOOK (ERS): Milk production is expected to expand during the second half of 2004, but large increases are not anticipated until next year. Although only moderate erosion in milk prices is foreseen by late 2004, farmers will likely find clear signs of lower prices ahead. Milk prices are projected to decrease \$2 to \$3 per hundredweight in 2005 compared to a \$16 projected average in 2004. Lower milk prices are a reflection of higher milk volumes anticipated. Milk per cow in 2005 is projected to rise with significant gains (~3%) anticipated when normal production schedules resume for bovine somatotropin. International butter and NDM markets in 2005 are expected to remain firm.

COLD STORAGE (NASS): During August, U.S. cold storage holdings of butter totaled 162.9 million pounds, 15.8% lower than July and 35.8% less than August 2003. Natural American cheese holdings total 572.8 million pounds, 7.0% less than last month but 4.8% more than August of last year. Nonfat dry milk holdings for the end of July total are presently unavailable.

AUGUST FEDERAL MILK ORDER PRICE & POOL SUMMARY (DAIRY PROGRAMS): During August, about 9.6 billion pounds of milk were received from producers. This volume of milk is 45.6% higher than the August 2003 volume on a comparable market basis. (Taking into account the volume of milk not pooled due to intraorder disadvantageous price relationships, the year-to-year change is +3.3%) About 3.7 billion pounds of producer milk were used in Class I products, 0.9% higher than the previous year on a comparable market basis. Calendar composition had virtually no impact on milk used in Class I in 2004 as compared to 2003. The all-market average Class utilizations were; Class I = 38%, Class II = 13%, Class III = 39%, and Class IV = 10%. The weighted average statistical uniform price was \$14.99, \$1.85 lower than last month, and \$1.95 higher than last year.

******SPECIAL THIS ISSUE******

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**CHICAGO MERCANTILE EXCHANGE
CASH TRADING**

PRODUCT	MONDAY SEPTEMBER 20	TUESDAY SEPTEMBER 21	WEDNESDAY SEPTEMBER 22	THURSDAY SEPTEMBER 23	FRIDAY SEPTEMBER 24	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE BARRELS	\$1.5200 (-.0100)	\$1.5200 (N.C.)	\$1.5025 (-.0175)	\$1.5025 (N.C.)	\$1.5025 (N.C.)	(-.0275)	\$1.5095 (-.0050)
40# BLOCKS	\$1.5675 (N.C.)	\$1.5675 (N.C.)	\$1.5675 (N.C.)	\$1.5675 (N.C.)	\$1.5675 (N.C.)	(N.C.)	\$1.5675 (N.C.)
NONFAT DRY MILK EXTRA GRADE	\$.8500 (N.C.)	\$.8500 (N.C.)	\$.8500 (N.C.)	\$.8500 (N.C.)	\$.8500 (N.C.)	(N.C.)	\$.8500 (N.C.)
GRADE A	\$.8500 (N.C.)	\$.8500 (N.C.)	\$.8500 (N.C.)	\$.8500 (N.C.)	\$.8500 (N.C.)	(N.C.)	\$.8500 (N.C.)
BUTTER GRADE AA	\$1.8300 (-.0025)	----	\$1.7600 (-.0700)	----	\$1.7500 (-.0100)	(-.0825)	\$1.7800 (+.0008)

CHEESE: carload = 40,000-44,000 lbs., NONFAT DRY MILK: carlot = 42,000-45,000 lbs., BUTTER: carlot = 40,000-43,000 lbs. *Sum of daily changes. # Weekly averages are simple averages of the daily closing prices for the calendar week. Computed by Dairy Market News for informational purposes. This data is available on the Internet at WWW.AMS.USDA.GOV/MARKETNEWS.HTM

CHEESE MARKETS

NORTHEAST

Prices are unchanged to lower and the market tone is mixed. At the CME, the 40# block price has held at \$1.5675 for ten consecutive sessions, while barrels have moved higher and lower during those same sessions. Cheese output in the Northeast is lighter as milk supplies tightened last week. A lot of milk was moving to the Southeast to help supplement shortages there. This left the Northeast with less milk for manufacturing. Demand for cheese is about steady in both retail and food service channels.

WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Cheddar 10# Prints	:	1.6375-2.1525
Cheddar Single Daisies	:	1.5950-2.0700
Cheddar 40# Block	:	1.7100-1.9700
Process 5# Loaf	:	1.7250-1.9325
Process 5# Sliced	:	1.7450-1.9850
Muenster	:	1.8100-2.0125
Grade A Swiss Cuts 10 - 14#	:	2.4500-2.6500

MIDWEST

The cheese market is cautiously steady. Recent larger volumes of cheese offerings on the Chicago Mercantile Exchange cash market along with higher August production estimates have buyers less concerned about short term cheese availability. However, good milk import volumes into the Southeast and good local bottler interest are reducing current cheese production levels. Process interest is steady to frequently slower seasonally as major grilling season winds down and demand turns more toward natural cuts and shreds. Natural orders are generally moderate. The process of setting up committed cheese supplies for next year is underway. Aged cheddar offerings are limited and buyers are balking at purchasing volumes put away at high, spring prices. Local milk intakes have also receded in recent weeks as warmer weather continues in many major Midwest areas. Cheese yields continue to remain higher than normal for September.

WISCONSIN WHOLESALE SELLING PRICES: DELIVERED,
DOLLARS PER POUND (1000 - 5000 POUNDS MIXED LOTS)

Process American 5# Loaf	:	1.6950-2.0000
Brick And/Or Muenster 5#	:	1.9800-2.2250
Cheddar 40# Block	:	1.8800-2.2650
Monterey Jack 10#	:	1.8600-2.2650
Blue 5#	:	2.3200-2.7000
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	1.8675-2.3650
Grade A Swiss Cuts 6 - 9#	:	2.4475-2.9500

**WEEKLY COLD STORAGE HOLDINGS-SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS**

	BUTTER	:	CHEESE
		:	
09/20/04	41,275	:	135,298
09/01/04	51,130	:	138,355
CHANGE	-9,855	:	-3,057
% CHANGE	-19	:	-2

WEST

Prices for reported Western types are lower for process but unchanged for natural items. Production is building in the region in response to higher milk output. The block cheese price has held steady in daily trading at the CME for the past two weeks and received heavy buying support this week (41 loads) to hold at \$1.5675. Availability of cheese varies depending on age and variety. The trade reports current cheese in balance with aged cheddar varieties short because of high price issues. Mozzarella supplies are closer to balance for current, but older, frozen mozzarella is available and being discounted to move. Swiss sales are variable currently and are expected to pick up soon ahead of holiday needs. U.S. stocks of American cheese at the end of August total 572.8 million pounds, down 7% or 43.2 million pounds from July. Stocks are up 5% or 26.1 million pounds from last year. Swiss stocks total 26.1 million pounds, up 18% from last year.

WHOLESALE SELLING PRICES: DELIVERED, DOLLARS PER POUND
(1000 - 5000 POUNDS MIXED LOTS)

Process 5# Loaf	:	1.6675-1.9275
Cheddar 40# Block	:	1.6875-2.0400
Cheddar 10# Cuts	:	1.8675-2.0875
Monterey Jack 10#	:	1.8775-2.0575
Grade A Swiss Cuts 6 - 9#	:	2.2500-2.8000

FOREIGN

Prices and the market tone are unchanged. Stocks of most types of imported and domestically made foreign-type cheeses are adequate to cover the steady, fair demand.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK
DOLLARS PER POUND (1000 - 5000 POUNDS, MIXED LOTS)

	:	NEW YORK	
VARIETY	:	IMPORTED	: DOMESTIC
	:		
Roquefort	:	TFEWR	: -0-
Blue	:	2.6400-4.2500	: 1.9325-3.4225
Gorgonzola	:	3.6900-5.9400	: 2.4375-2.4900
Parmesan (Italy)	:	TFEWR	: 3.3425-3.4525
Romano (Italy)	:	2.1000-3.1500	: -0-
Provolone (Italy)	:	3.4400-5.5500	: 1.9450-2.1675
Romano (Cows Milk)	:	-0-	: 3.1275-5.3025
Sardo Romano (Argentine)	:	2.8500-3.2900	: -0-
Reggianito (Argentine)	:	2.6900-3.2900	: -0-
Jarlsberg-(Brand)	:	2.9500-4.0900	: -0-
Swiss Cuts Switzerland	:	-0-	: 2.4500-2.6500
Swiss Cuts Finnish	:	2.5900-2.8500	: -0-
Swiss Cuts Austrian	:	TFEWR	: -0-
Edam	:		
2 Pound	:	TFEWR	: -0-
4 Pound	:	2.1900-3.4500	: -0-
Gouda, Large	:	TFEWR	: -0-
Gouda, Baby (\$/Dozen)	:		
10 Ounce	:	27.8000-31.7000	: -0-

* = Price change.

FLUID MILK AND CREAM

E A S T

Spot shipments of Grade A milk into or out of Florida and other Southeastern states

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	213	0	309	0	204	0
SOUTHEAST STATES	74	0	55	0	40	0

During August, milk production in the 20 major states totaled 12.39 billion pounds, up 1.5% from August 2003. The following are the August-to-August changes for selected states: Texas +11.9%, Florida +7.6%, Kentucky +5.5%, Virginia +5.3%, Vermont +0.5%, New York -0.9%, and Pennsylvania -2.2%. Milk production is mixed; lighter in the Northeast, occasionally heavier in the Southeast. Most of the increases were noted in hurricane ravaged areas that are seeing milkings and farm pick-ups getting back to more normal schedules. However, contacts fear that all the recent disruptions to milking patterns may have long term effects on the cows. Hurricane Ivan did cause building damage, flooding, and power outages, but the overall impact on the dairy industry was not as great as Charley and Frances. Florida's milk needs lessened this week as bottlers are getting caught up with back orders. The sudden drop in need, did catch some milk "on the road," but they were easily diverted to other plants in the Southeast. Trucks and people to drive the trucks continue to be in short supply. Clean up efforts in Florida and other states are creating some temporary, good-paying jobs for truckers, which is hurting milk and cream hauling companies' ability to schedule or keep drivers. Bottlers outside the region that were shipping packaged milk into the Southeast have cut back operating schedules now that the needs have been filled. Surplus milk volumes, though occasionally heavier, are still relatively tight and easily cleared. Reports of plant renovations/remodeling have milk and cream looking for other outlets. The condensed skim market is unchanged. Spot demand for Class III condensed remains slow and Class II sales are slow to fair. The fluid cream market is not as firm as it was last week. Contacts reports that supplies early this week were tight (much like last week), but by midweek, they had many loads to sell. Spot prices are generally higher. Multiples seemed to be in a narrower range, but the CME butter average did increase more than three cents. Cream cheese producers are reported taking more cream as they package for anticipated fall/winter holiday needs. Ice cream production is seasonally light and many cream suppliers continue to comment that the cool/rainy summer weather conditions hampered consumption and curtail production of ice cream. Churning activity is lighter this week. Reportedly, one operation is replacing the floor in their butter room and this is putting more cream on the market

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT	
F.O.B. PRODUCING PLANTS: NORTHEAST	- 2.3485-2.5265
DELIVERED EQUIVALENT ATLANTA	- 2.3663-2.5265 M 2.3663-2.4553
F.O.B. PRODUCING PLANTS: UPPER MIDWEST	- 2.2863-2.4553
PRICES OF CONDENSED SKIM, \$ PER LB SOLIDS	
F.O.B. PRODUCING PLANTS:	
NORTHEAST- CLASS II - INCLUDES MONTHLY FORMULA PRICES	- .9150- .9600
NORTHEAST- CLASS III - SPOT PRICES	- 1.0000-1.0500

M I D W E S T

Class I demand was steadier at good levels in the upper Midwest as bottlers started to get a better handle on actual school milk needs. Cottage cheese and sour cream levels are about normal though cream cheese production is active seasonally. The unsettled situation in Florida and the Southeast due to the hurricanes has had interstate milk shipments and local milk availability more in a state of flux than usual. Milk shipments into the Southeast are often heavier, and reportedly include a new upper Midwest shipper or two from recent weeks. Milk supplies are tight locally. Trucking issues remain but seem to be easing from recent weeks. Manufacturing milk demand remains fairly strong with premiums paid steady to higher, in the \$2.00 - \$3.20 over class area, net

of the haul. Milk intakes are steady to mostly lower seasonally. Cream demand remains fairly good overall; slower from ice cream accounts but stronger from other users. Ice cream manufacturers are still working down inventory built earlier in the year and are typically operating on reduced schedules. Until recently, the cool summer weather did little to stimulate ice cream sales in parts of the country. Weather concerns continue in some upper tier states. Some corn is being chopped for more than just opening the field and a few handlers are attributing a slight rise in milk components to the feed. Soybeans are also being combined in more southern sections but corn is often still being left to field dry. The initial August 2004 estimated milk production in selected Midwestern states compared with August 2003 is: Wisconsin 1.854 billion pounds, down 21 million pounds (-1.1%); Minnesota 670 million pounds, up 3 million pounds (0.4%); Michigan 532 million pounds, off 17 million pounds (-3.1%); Iowa 294 million pounds, down 14 million pounds (-4.5%); and Indiana 240 million pounds off 5 million pounds (-2.0%).

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	SEPT 16 - 22	PREVIOUS YEAR
SLAUGHTER COWS	\$ 54.00- 58.00	\$ 48.00- 53.50
REPLACEMENT HEIFER CALVES	\$440.00-620.00	\$400.00-600.00

SOUTH ST. PAUL TERMINAL AUCTION MARKET (PER CWT.)

	SEPT 16 - 22	PREVIOUS YEAR
SLAUGHTER COWS	\$ 52.00- 60.00	\$ 47.00- 54.25

W E S T

August milk production in the 20 surveyed states totaled 12.4 billion pounds, 1.5% higher than August 2003. Milk cows totaled 7.766 million head, down 5,000 head from July 2003. August 2004 output changes for selected Western states compared to last year are: Arizona +13.6%, California +3.5%, Idaho +5.0%, New Mexico +3.4%, and Washington -4.6%. The five Western states account for 2,894,000 head (37.3% of the 20 states total) and 5.192 billion pounds of milk (41.9% of the 20 states total) in August 2004. Weather conditions have been favorable for milk output growth across CALIFORNIA during the past two weeks. Milk intakes are steady to higher and are at levels above last year, when there was weather stress. Fat and protein levels are beginning to increase. Plants have capacity to take additional milk supplies and some cheese plants want more milk. Bottled milk needs are steady with good, consistent orders from schools and retailers. Rains across much of the milk producing areas of ARIZONA did not impact milk production much. The cooler conditions that followed may have offset any negative effects of the rain. Total volumes are trending upwards at levels above last year. Class I demand is steady. NEW MEXICO milk production is steady to slightly lower and reflects the impact of recent heat and humidity. Milk supplies continue to move to the Southeast to fill local shortages, but the volumes are down from last week. Alfalfa prices are steady with production now between the fifth and sixth cuttings. CREAM prices are trending slightly higher as the CME butter average increased. Butter prices moved higher last week, but retreated this week and closed at \$1.7600 on Wednesday, September 23, only a half cent higher than last week. Cream demand is good early in the week, but fades on the weekend. Butter production and the making of cream cheese and sour cream are taking the bulk of cream. Cream multiples are slightly lower in the range from 118 to 134, FOB and vary depending on class usage and basing point. Milk production is holding steady across most of WASHINGTON and OREGON with some areas seeing slight increases in milk intakes. The trend in milk solids is moving marginally higher. Plants have capacity and are welcoming any additional milk supplies. Dairy producers in the region are finding good quality dairy hay harder to find and hoping for decent quality in the last cutting. In UTAH and IDAHO producer milk receipts are mostly steady to slightly higher. Weather conditions have cooled and milk cows are beginning to respond. Fat and protein are also increasing. Sale prices for dairy heifers in the region moved higher, averaging over \$1900 with the top at \$2150.

NDM, BUTTERMILK & WHOLE MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL AND EAST

CENTRAL: Prices continue unchanged on a steady to weak market. Increased production of cheese is encouraging some spot movement of NDM into cheese plants. Some seasonal interest for baking and blending is also noted. However, supplies of CCC exchange NDM remain plentiful and competitive with the Extra Grade market. Production is steady to lower as milk moves into bottling or cheese plants instead of NDM operations in some areas. Overall production continues to be higher than anticipated for this time of the year. The undertone for the remainder of the year is steady at best unless significant clearance of supplies can be made via export channels.

EAST: Prices are mostly steady and the market tone is unchanged. Production levels are up slightly from last week when surplus milk supplies were tight. Last week, heavy volumes of milk moved into Class I plants to satisfy the need for bottled milk in the hurricane ravaged areas of the Southeast. This week less milk is needed for Class I. This did ease the shortage of surplus milk in the Northeast seen last week. Drying schedules are up slightly at some plants; steady at others. Plant stocks are long, but the slowing output is helping some plants lower their inventory levels. Demand for NDM is fair and mostly contractual. Some commercial export sales have been reported, typically for medium heat powder. Demand for high heat NDM is steady. Most spot sales of low heat powder are being filled in the resale market and most of those sales continue to be NDM that came onto the market via various government programs. This powder is as much as two years old and priced in the \$.70's, dependent on age. The FAS announced this year's (July-June 2004/05) DEIP allocation for NDM at 68,201 MT, unchanged from last year's program. Although the allocations have been announced, exports under this program may not begin until FAS issues "Invitations for Offers." (See page 12 of this report for press release.)

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .8000 - .9400 MOSTLY: .8100 - .8400
 HIGHHEAT: .9225 - 1.0300

NONFAT DRY MILK - WEST

Low/medium heat prices moved both higher and lower this week. The higher prices reflect contracted export accounts. The lower trend within the mostly series is occurring because of additional support price purchases. The trade is pleased to be moving NDM to export accounts with direct exporting, but is unsure how long this will last. Some contacts feel that export accounts will slow and then support purchases will grow. Domestic demand is limited and often filled from the resale market with older and lower priced NDM. Current production trends are higher as milk volumes are growing in the region. Inventory positions at the producer level remain longer than needs. During the week of September 13 - 17, 2,966,022 pounds of NDM were offered to the CCC program from western producers. Prices for high heat NDM are slightly higher on the bottom end of the range. The tone remains steady. Buyer demand is fair for current market conditions with some seasonal interest developing. Producers don't express concern about making and having high heat in coming months when milks supplies build and processing time is limited. Inventories of high heat are mostly light and balanced with demand. DEIP: The USDA announced new one-year allocations under the Dairy Export Incentive Program (DEIP) for the July-June 2004/05 year. DEIP allocations of 68,201 metric tons of nonfat dry milk may be made available through future Invitations for Offers. Because of current international and domestic market conditions, Invitations for Offers will not immediately be made available. USDA will continue to monitor market conditions closely to determine when invitations on these allocations may be issued. Export sales of these products under DEIP will be facilitated through the payment of bonuses by USDA's Commodity Credit Corporation.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUMHEAT: .7950 - .9000 MOSTLY: .8000 - .8800
 HIGHHEAT: .8600 - .9125

CALIFORNIA MANUFACTURING PLANTS - NDM

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
September 17	\$.8464	14,114,539	1,771,508
September 10	\$.8469	13,811,112	2,245,860

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

DRY BUTTERMILK - CENTRAL

Prices continue unchanged and nominal on a weak market. Production is steady to slightly lower as some plants note renewed condensed buttermilk interest from a few ice cream producers. Supplies and production are higher than anticipated for this time of the year, especially as some producers confidently held stocks this summer in the event of tighter milk supplies/reduced buttermilk production. Offerings are noted at the average or at a discount for the light interest.

F.O.B. CENTRAL: .9500 - 1.0100

DRY BUTTERMILK - NORTHEAST AND SOUTHEAST

Prices and the market tone are unchanged. However, some producers are indicating that buyers are showing more resistance to current prices. Production levels in the East are lighter as some major butter producing plants are either down or churning only a few days each week. Demand for dry buttermilk is lackluster. With an abundance of NDM available in the \$.80's many buttermilk users are opting for the less expensive product. Eastern producers report stocks as manageable, but heavier than desired. Eastern prices remain nominal and may include some resale loads.

F.O.B. NORTHEAST: 1.0000 - 1.0600
 DELVDSOUTHEAST: 1.0100 - 1.0700

DRY BUTTERMILK - WEST

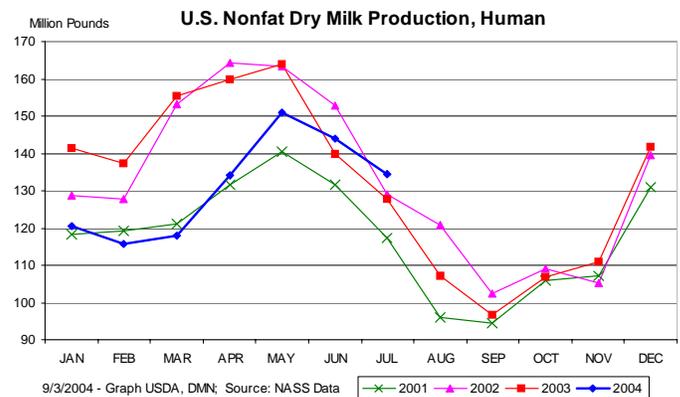
Western buttermilk prices are holding mostly steady in light spot trading. Despite some marginal price declines last week, buying interest is light. Producers remain reluctant to move asking prices lower despite margins between regions. This is in part due to the generally favorable inventory positions caused by low production and decent sales of condensed buttermilk. Current production levels are mixed, but are generally steady. An upward trend is expected as churning increases in the region.

F.O.B. WEST: 1.0200 - 1.0700 MOSTLY: 1.0300 - 1.0500

DRY WHOLE MILK - NATIONAL

Prices are steady to higher. The market tone is unchanged. The recent butter price increases at the CME is contributing to price increases. Production levels are light and plant stocks are closely balanced. Demand is mostly contractual. Reports indicate that some imported dry whole milk is being offered at prices below the bottom of the range.

F.O.B. PRODUCING PLANT: 1.2400 - 1.3900



WHEY, CASEIN & EVAPORATED MILK

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

DRY WHEY - CENTRAL

Prices are generally unchanged on a steady market. Trade activity remains very light. Movement is best into export markets and some food plants for seasonal baking and blending demand. Feed interest is light and less than anticipated. Traders suspect that many feed buyers stocked up on whey prior to the price increases this spring and are now less in need of spot loads. Resale trades are reported at a premium to the market. Production is steady to higher in response to increased cheese production in some areas. Inventories are generally reported as in balance.

F.O.B. CENTRAL: .2100 - .2250 MOSTLY: .2100 - .2200

DRY WHEY - NORTHEAST AND SOUTHEAST

Prices are mostly steady and the market tone is unchanged. Northeastern prices remain nominal. Production levels in the Northeast are steady at lighter than desired levels. Fewer plants are producing cheese and whey this month. One operation is temporarily closed for renovations, but one plant did cease cheese production and the already tight supply of liquid/condensed whey is tighter. Most Eastern producers are sold out for the balance of the year. However, occasional reports do note some plants offering current production on the spot market at a slight premium to the market. Contacts report that some of this product does not always have the most widely accepted approvals, which tends to limit outlets. Demand for dry whey is fair at best as spot buyers are still in a wait and see posture. Most spot needs are being filled in the resale side of the market.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .2175 - .2600
DELVD SOUTHEAST: .2450 - .2550

DRY WHEY - WEST

Western whey prices are trending higher. The market tone is trying to gain some firmness following recent lower prices negotiated for export contracts and volume movements. Several producers are attempting to reestablish overages and premiums for their pricing programs. There are other producers that have some product to move and are offering limited discounts. Demand is fair to good for export accounts and moving fair at best for domestic accounts. Drying schedules are starting to move higher as milk intakes increases. Many producers are in better inventory shape than at the start of the month. Plant level inventories are light to moderate.

NONHYGROSCOPIC: .1900 - .2450 MOSTLY: .2150 - .2300

ANIMAL FEED WHEY - CENTRAL

Prices continue unchanged and nominal on a steady market. Supplies are light with some renewed interest noted as buyers perceive higher prices in the Extra Grade market. Veal and early weaned pig prices are trending higher for the fair interest.

F.O.B. CENTRAL:
MILK REPLACER: .1750 - .1950

WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST

Prices are unchanged on a steady to weak market. Trade activity is light. Some renewed spot interest for process cheese and export markets is noted. Feed buyer interest is less than anticipated for this time of year, especially with the increasing supplies of off grade reportedly available. Resale trade is being reported at a discount to the current market. Canadian supplies are being offered into the U.S. at prices near the bottom end of the range. Production is mostly steady.

F.O.B. EXTRA GRADE 34% PROTEIN: .5675 - .6300 MOSTLY: .5975 - .6225

LACTOSE - CENTRAL AND WEST

Prices are unchanged on a weak market. Many producer contacts are unavailable as they competitively seek the buying interest of importers in Asia for the fourth quarter. Contracts for the fourth quarter are slow to evolve. Spot offers are noted at the average or at a discount for the light interest. Third quarter contractual prices continue to be reflected on the high side of the range. Some Western manufacturers are diverting their interests to the domestic market to avert building stocks in light of reduced export demands. Production is mostly steady.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.
F.O.B. EDIBLE: .1700 - .2700 MOSTLY: .1800 - .2200

CASEIN - NATIONAL

Prices for both casein types are unchanged and the market tone is firm. Demand is good for the limited availability of rennet and acid casein. Supply situations in producing countries are limited and product is often unavailable beyond contracted amounts. The question on additional supplies will be dependent on the upcoming season in Oceania. The CCC announced invitation #027, the sale of 1,999,362 pounds of government owned nonfat dry milk to the trade at \$0.4330 per pound for the manufacture of casein/caseinate. Subsequently, invitation #028 was issued and amended late last week to buy from CCC approximately 4 million pounds of nonfat dry milk for this purpose. The volume was double recent invitations. Bids were due on Tuesday, September 21 with results released publicly on Thursday, September 23.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 2.7500 - 3.0000
ACID: 2.8000 - 3.0000

EVAPORATED MILK - NATIONAL

Prices and the market tone are unchanged. Production levels are mostly steady. In some parts of the country, surplus milk volumes are tighter than anticipated and producers are adjusting output accordingly, particularly if they have to buy premium-priced milk on the spot market. Demand is starting to show a little more seasonal improvement as retail stores prepare for the holiday, baking season. Producing plant inventories are adequate to meet current needs.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$22.00 - 30.00

Excluding promotional and other sales allowances. Included new price announcements.

MONTHLY COLD STORAGE REPORT – TOTAL U.S. STOCKS

NOTE: Data for this report is collected from public, private and semiprivate warehouses, apple houses, and meat packing plants where food products are generally stored for 30 days or more. Commodities in space owned or leased and operated by the armed services are not reported. Food stocks held under bond are included in the storage data.

All stocks in thousand pounds except where otherwise indicated

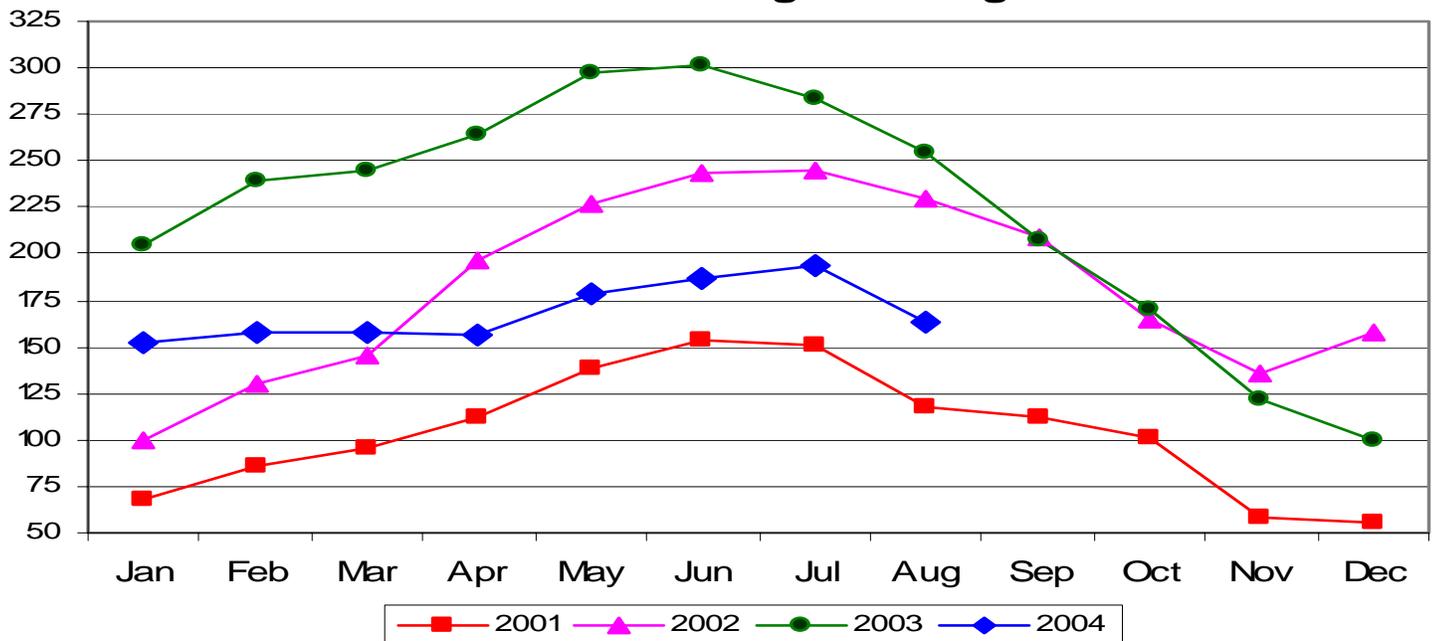
U.S. HOLDINGS OF DAIRY PRODUCTS						
COMMODITY	JULY 31, 2002	JULY 31, 2003	REVISED JULY 31, 2004	AUG 31, 2002	AUG 31, 2003	AUG 31, 2004
Butter	245,298	283,879	193,520	229,471	253,913	162,897
Cheese, Natural American	573,368	552,455	615,904	565,419	546,627	572,753
Cheese, Swiss	15,721	28,896	28,012	14,250	22,172	26,106
Cheese, Other Natural	244,489	227,612	225,686	221,829	225,416	220,178
U.S. GOVERNMENT OWNED COLD STORAGE HOLDINGS						
Butter	1,991	11,183	136	2,449	9,567	35
Natural American Cheese	572	6,141	7,077	420	8,807	7,076

AUGUST STORAGE HOLDINGS BY REGION									
REGION	Natural American Cheese			Butter *			Other Natural Cheese		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
New England	20,603	22,064	25,121	---	---	---	443	234	318
Middle Atlantic	69,202	53,684	61,301	---	---	---	36,927	17,607	20,134
East North Central	224,461	217,648	221,492	---	---	---	112,520	130,396	121,839
West North Central	142,206	131,169	127,240	---	---	---	56,006	57,392	56,203
South Atlantic	186	140	4,198	---	---	---	1,919	1,938	101
East South Central	271	213	45	---	---	---	178	1,903	2,448
West South Central	2,244	4,431	4,563	---	---	---	284	147	77
Mountain	9,351	20,515	30,349	---	---	---	1,226	2,910	5,267
Pacific	96,895	96,763	98,444	---	---	---	12,326	12,889	13,791
TOTAL	565,419	546,627	572,753	229,471	253,913	162,897	221,829	225,416	220,178

*Regional breakdowns are not reported to avoid possible disclosure of individual operations.

Million Pounds

Butter Cold Storage Holdings



COMMERCIAL AND GOVERNMENT STORAGE HOLDINGS, JANUARY 2003 TO DATE

Month	Butter						Natural American Cheese						Nonfat Dry Milk					
	Total <u>1/</u>		Commercial		Government		Total <u>1/</u>		Commercial		Government		Total <u>1/ 2/</u>		Commercial		Government <u>2/</u>	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	Million Pounds						Million Pounds						Million Pounds					
January	152	205	151	204	1	<u>3/</u>	518	515	508	515	10	<u>3/</u>	945	1,147	109	112	836	1,036
February	158	240	157	238	1	1	533	539	524	538	10	<u>3/</u>	896	1,187	95	116	800	1,071
March	158	245	158	242	1	3	521	531	511	529	10	2	841	1,247	80	137	761	1,111
April	156	264	155	259	<u>3/</u>	5	529	535	519	532	10	3	826	1,308	104	154	723	1,154
May	179	298	178	289	<u>3/</u>	9	561	539	551	536	10	3	814	1,336	123	159	691	1,177
June	187	301	187	291	<u>3/</u>	11	590	550	582	546	9	4	774	1,365	146	152	628	1,212
July	194	284	193	273	<u>3/</u>	11	616	552	609	546	7	6	NA	1,308	NA	90	NA	1,219
August	163	254	163	244	<u>3/</u>	10	573	547	566	538	7	9		1,245		75		1,170
September		207		197		10		517		508		9		1,207		69		1,138
October		170		159		11		491		482		9		1,128		69		1,059
November		123		114		9		467		460		7		1,062		87		975
December		100		93		6		491		482		10		978		108		870

NA = Not available.

1/ Total may not add due to rounding. 2/ Includes instant nonfat dry milk. 3/ Less than 500,000 lbs.

COMMERCIALLY OWNED COLD STORAGE HOLDINGS FOR THE UNITED STATES 1/

Commodity	Jul 31, 2002	Jul 31, 2003	Jul 31, 2004	Aug 31, 2002	Aug 31, 2003	Aug 31, 2004
	Thousand Pounds					
Butter	243,307	272,696	193,384	227,022	244,346	162,862
Natural American Cheese	572,796	546,314	608,827	564,999	537,820	565,677

1/ Total holdings minus Government owned holdings. For more information, see page 7 of this report.

SOURCE: "Cold Storage," Co St 1 (9-04) and "Dairy Products," Da 2-6 (9-04), Agricultural Statistics Board, National Agricultural Statistics Service; and "Summary of Processed Commodities in Store," Farm Service Agency.

FEDERAL MILK ORDER ADVANCE PRICES, OCTOBER

Class I Base Price - Under the Federal milk order pricing system, the Class I base price for October 2004 is \$14.78 per cwt. This price is derived from the advanced Class III skim milk pricing factor of \$8.53 and the advanced butterfat pricing factor of \$1.8715. A Class I differential for each order's principal pricing point (county) is added to the base price to determine the Class I price. **Class II Price Information** - The advanced Class IV skim milk pricing factor is \$6.44. Thus, the Class II skim milk price for October is \$7.14 per cwt., and the Class II nonfat solids price is \$0.7933. **Product Price Averages** - The two-week product price averages for October are: butter \$1.6746, nonfat dry milk \$0.8622, cheese \$1.5958, and dry whey \$0.2155.

FEDERAL MILK ORDER CLASS I PRICE INFORMATION <u>1/</u> <u>2/</u>				
Federal Milk Order Marketing Area <u>3/</u>	Order Number	October 2004		
		Class I Price (3.5 %)	Class I Skim Milk Price	Class I Butterfat Price
		\$ per cwt.	\$ per cwt.	\$ per pound
Northeast (Boston) <u>4/</u>	001	18.03	11.78	1.9040
Appalachian (Charlotte) <u>5/</u>	005	17.88	11.63	1.9025
Southeast (Atlanta) <u>6/</u>	007	17.88	11.63	1.9025
Florida (Tampa) <u>7/</u>	006	18.78	12.53	1.9115
Mideast (Cleveland) <u>8/</u>	033	16.78	10.53	1.8915
Upper Midwest (Chicago) <u>9/</u>	030	16.58	10.33	1.8895
Central (Kansas City) <u>10/</u>	032	16.78	10.53	1.8915
Southwest (Dallas) <u>11/</u>	126	17.78	11.53	1.9015
Arizona-Las Vegas (Phoenix) <u>12/</u>	131	17.13	10.88	1.8950
Pacific Northwest (Seattle) <u>13/</u>	124	16.68	10.43	1.8905
All-Market Average		17.43	11.18	1.8980

1/ To convert the Class I price per 100 pounds to the Class I price per gallon, divide by 11.63--the approximate number of gallons in 100 pounds of milk. 2/ Note: The mandatory \$0.20 per cwt. processor assessment under the Fluid Milk Promotion Order is not included in the Class I prices shown on this table. 3/ Names in parentheses are the major city in the principal pricing point of the markets. 4/ Class I prices at other cities are: New York City, minus \$0.10; Philadelphia, minus \$0.20; Baltimore, minus \$0.25, and Washington, DC, minus \$0.25. 5/ Class I prices at other cities are: Knoxville, minus \$0.30 and Louisville, minus \$0.90. 5/ Class I prices at other cities are: New Orleans; plus \$0.50; Memphis, minus \$0.30; Nashville, minus \$0.50; and Springfield, MO., minus \$0.90. 6/ Class I prices at other cities are: Orlando, same; Miami, plus \$0.30; and Jacksonville, minus \$.30. 7/ Class I prices at other cities are: Indianapolis minus \$0.30. 8/ Class I prices at other cities are: Indianapolis, same; Cincinnati, plus \$0.20; Pittsburgh, plus \$0.10; and Detroit, minus \$0.20. 9/ Class I prices at other cities are: Milwaukee, minus \$0.05; and Minneapolis, minus \$0.10. 10/ Class I prices at other cities are: Des Moines, minus \$0.20; Omaha, minus \$0.15; Oklahoma City, plus \$0.60; St. Louis, same; and Denver plus \$0.55. 11/ Class I prices at other cities are: Houston, plus \$0.60; San Antonio, plus \$0.45; Albuquerque, minus \$0.65; and El Paso, minus \$0.75. 12/ Class I prices at Las Vegas is minus \$0.35. 13/ Class I prices at other cities are: Portland, same; and Spokane, same.

AUGUST MILK PRODUCTION

Milk production in the 20 major states during August totaled 12.4 billion pounds, up 1.5 percent from August 2003. July revised production, at 12.5 billion pounds, was up 1.0 percent from July 2003. The July revision represented an increase of 36 million pounds or 0.3 percent from last month's preliminary production estimate.

Production per cow in the 20 major states averaged 1,595 pounds for August, 24 pounds above August 2003.

The number of cows on farms in the 20 major states was 7.77 million head, 5,000 head less than August 2003, but 7,000 head more than July 2004.

AUGUST 2004 MILK COWS AND MILK PRODUCTION, BY STATES

STATE	MILK COWS 1/		MILK PER COW 2/		MILK PRODUCTION 2/		
	2003	2004	2003	2004	2003	2004	% CHANGE FROM 2003
	THOUSANDS		POUNDS		MILLION POUNDS		PERCENT
AZ	155	163	1,610	1,740	250	284	13.6
CA	1,693	1,733	1,755	1,775	2,971	3,076	3.5
FL	140	138	1,120	1,225	157	169	7.6
ID	411	431	1,860	1,860	764	802	5.0
IL	110	107	1,480	1,490	163	159	-2.5
IN	152	149	1,610	1,610	245	240	-2.0
IA	200	190	1,540	1,545	308	294	-4.5
KY	112	110	975	1,045	109	115	5.5
MI	304	303	1,805	1,755	549	532	-3.1
MN	470	465	1,420	1,440	667	670	0.4
MO	128	121	1,125	1,210	144	146	1.4
NM	317	330	1,750	1,740	555	574	3.4
NY	671	654	1,475	1,500	990	981	-0.9
OH	260	266	1,420	1,440	369	383	3.8
PA	571	560	1,480	1,475	845	826	-2.2
TX	320	320	1,310	1,465	419	469	11.9
VT	147	145	1,470	1,495	216	217	0.5
VA	112	104	1,190	1,350	133	140	5.3
WA	244	237	1,960	1,925	478	456	-4.6
WI	1,254	1,240	1,495	1,495	1,875	1,854	-1.1
20 STATE TOTAL	7,771	7,766	1,571	1,595	12,207	12,387	1.5

1/ Includes dry cows. Excludes heifers not yet fresh.

2/ Excludes milk sucked by calves.

SOURCE: "Milk Production," Da 1-1 (9-04), Agricultural Statistics Board, National Agricultural Statistics Service, U.S. Department of Agriculture.

THE DAIRY OUTLOOK*

More Milk Eases Dairy Markets - Dairy market fundamentals changed in early summer as milk production began to expand. Additional milk in the months to come should ease dairy markets during the remainder of 2004. Even so, some tightness likely will continue. Demand is expected to stay fairly good, and the growth in supplies probably will be gradual. Dairy product prices remain unsettled and probably will remain so until yearend. The aftermath of the surge and subsequent collapse of prices continues to confuse the underlying supply-demand balance. However, most adjustments probably have been made, and prices may steady a bit if no new surprises emerge. Milk production rose above a year earlier in July for the first time since last autumn. The recovery was the result of quite favorable summer weather and expedient adjustments to record milk prices. Milk production is expected to expand during the second half of 2004, but large increases are not projected until next year. Milk cow numbers in the 20 major states were a little higher in June and July after holding fairly steady since last November. Compared with a year earlier, milk cow numbers have gone from a decrease of more than 1 percent early in 2004 to barely lower in July. Between high milk prices and the lack of any summer heat stress, cows probably stayed profitable longer—enough so that any producer capable of stretching capacity probably was tempted. High milk prices probably have had relatively small effect on addition of new capacity because many of the causes of the price jumps were obviously temporary. However, prices have stayed relatively high for long enough that they may be lessening the exit of dairy farmers. Milk cow numbers are projected to resume declines by this autumn. Although only moderate erosion in milk prices is expected by late 2004, farmers probably will see clear signs of lower prices ahead. For the year, milk cow numbers are projected to average about 1 percent below a year earlier. In 2005, expected much lower milk prices will work to weaken milk cow numbers.

Milk Per Cow Coming Back - Milk per cow continues its gradual recovery from late winter weakness. In the 20 major states, July milk per cow rose at an annual rate of more than 1 percent from the average of the preceding 5 years, still relatively weak but twice the rate of late winter. The pickup reflected the rises in milk prices and milk-feed price ratios and particularly favorable summer weather. Heat stress, normally a major cause of seasonal declines in milk per cow, was almost absent from many important dairy areas this year. Concentrate feed prices have eased under pressure from generally large projected 2004 crops. Drops in milk prices will mean that milk-feed price ratios will not stay at the very high second-quarter readings, but second-half ratios probably will be moderately favorable to increased feeding and further recovery in milk per cow. Hay supplies this year are relatively ample in much of the country but quality is quite suspect. In addition, corn silage prospects are quite good in most areas. Recovery in milk per cow is expected to continue, although sizable increases are not projected until normal availability of bovine somatotropin (BST), expected in 2005, resumes. The 2004 milk per cow is projected to rise less than 1 percent from a year earlier (on a daily average basis), the second straight such minimal gain. Even if normal BST and heavier feeding bring about the expected 3-percent growth in 2005, milk per cow would remain significantly below the earlier trend line. Modest second-half increases are projected to about offset first-half declines and leave 2004 milk production very close to the 170.3 billion pounds of 2003. Next year's projected recovery in milk per cow would generate a 2005 increase of just less than 2 percent on a daily average basis.

Cheese Gives Up Milk - The late spring diversion of milk away from cheese and into butter-nonfat dry milk output continued into early summer. In fact, the diversion in July was stronger than it had been in May and June. As cheese prices fell from their very high spring peaks, buyers started working off their pipeline stocks by purchasing less than normal. As movement fell, warehouse cheese stocks mounted even with the diversion of milk to butter-powder operations. By July, total cheese production was below a year earlier even though supplies of milk for manufacturing were larger. Output of both butter and nonfat dry milk went from being down sharply from a year earlier in April to posting sizable increases by July. The swing was particularly abrupt for butter, in part because the diversion of milk probably was augmented by milkfat users making their own pipeline stock adjustments. Commercial warehouse stocks of American cheese on August 1 were the largest since 2000 and significantly larger than the preceding 2 years. Meanwhile, manufacturers' stocks of nonfat dry milk were somewhat higher than the last 2 years. Powder stocks probably have grown to accommodate this year's commercial export business.

Sales Decrease - June's decrease in commercial disappearance sharpened in July, mostly because of large declines from a year earlier in cheese movement. June-July cheese sales fell about 4 percent, in part counterbalancing the very large increases of February-April. Buyers reduced purchases to use up pipeline holdings built during the earlier panic. There is no reason to think that final use has weakened, particularly since restaurant sales reportedly have been robust. For the first 7 months of 2004, cheese sales rose 4 percent. Butter movement slipped in July after extraordinary gains in May-June. Like cheese, this slippage probably was a technical correction after this year's tumultuous markets. On the other hand, sales of nonfat dry milk continued to post large increases. Powder movement reflected export demand and some possible improvement in use of skim solids by food processors. Concentrated milk proteins are less of a factor this year because higher international prices have eliminated any cost advantage. July fluid milk sales evidently stayed weak, although not down as sharply as in May and June. Milk sales have struggled throughout the year but seemed to be hurt considerably by high retail prices and the resulting publicity. Most perishable manufactured products also were sluggish this spring and early summer. In July-August, net removals of butter and cheese were almost nonexistent while the nonfat dry milk surplus was small. Net removals of powder in July-August were less than half the year-earlier level and only about a fourth of 2002. Despite the falling prices, milkfat markets remained tight this summer. Commercial exports probably were the major factor behind the declines in nonfat dry milk purchases, but expanded domestic use of powder may have also played a role. The surplus of skim solids may increase slightly during the rest of 2004 and 2005 as milk production expands. Even so, removals are expected to remain considerably below those of recent years if international markets stay firm as projected. Butter and cheese removals are projected to remain very small.

International Markets Hold - International dairy markets remain much the same. Milk production has been down in the European Union, resulting in smaller intervention purchases and limited export supplies. Oceania's season is just beginning among potential production concerns. Meanwhile, import demand has held firm at fairly good levels. In early September, both butter and nonfat dry milk prices were more than \$2,000 per metric ton with no significant signs of softening. Prices are expected to stay relatively strong during the next year. Reported exports of nonfat dry milk during January-July were close to exports under the Dairy Export Incentive Program (DEIP) plus shipments of Government-owned powder for food aid. Yet, commercial exports are known to have been made. Commercial exports will be sizable this summer and autumn, with some agreements reportedly already made for winter shipment. Allocations under the DEIP have not yet been announced for the commitment year that began July 1, although that action is largely academic in light of our current price competitiveness. January-July 2004 imports of milkfat were considerably larger than a year earlier but skim solids imports were only slightly larger. The boost in milkfat imports was mostly the result of high-tariff imports of butter in response to high domestic butter prices. Even so, the 17 million pounds of high-tier butter was quite moderate in light of the nominal profitability. International butter markets were tight enough to make it difficult to obtain supplies quickly enough for over-TRQ imports. January-July cheese imports were somewhat larger than a year earlier.

Prices Trend Lower - Butter and cheese prices have continued to bounce this summer as traders attempted to sort out production, use, and stock effects. In general, prices have exhibited considerable resiliency even though the general trend has been downward. Price movements have been consistent with gradually changing market fundamentals rather than dramatically altered market conditions. Nonfat dry milk prices have eased since their June peak. Production has increased and considerable old powder, swapped by USDA for pudding and processed cheese, reportedly is available. With milk production expanding and ample stocks, wholesale dairy product prices would seem to have limited opportunity for rises by late 2004. Summer prices received by farmers for milk have been dramatically lower than the spring records but have stayed well above a year earlier. Milk prices are projected to stay above a year earlier through the rest of the year, but the autumn increase likely will be smaller than summer's. For all of 2004, farm milk prices are expected to average a record of almost \$16 per cwt, up more than \$3 from 2003. Larger milk output will pressure 2005 milk prices. Under the expected demand conditions, milk prices are projected to decrease \$2 to \$3 per cwt next year. Even so, prices would remain well above the very low levels of 2000, 2002, or 2003. The index of retail dairy prices stood at 187.7 (1982-84=100) in July, up 14 percent from a year earlier but slightly below the June peak. The largest rise was for fluid milk, up 25 percent from a year earlier. Retail milk prices had been relatively low in the summer of 2003. July prices for manufactured dairy products were significantly higher than a year ago but rises were much more moderate than for fluid milk.

SOURCE: "Livestock, Dairy, and Poultry Outlook", LDP-M-123, September 16, 2004, Economic Research Service, USDA. Contact: James J. Miller, (202) 694-5184.
* This summary has been condensed by the Market Information Branch, Dairy Programs, AMS.

USDA ANNOUNCES DEIP ALLOCATIONS FOR 2004/05

WASHINGTON, Sept. 17, 2004 - The U.S. Department of Agriculture today announced new one-year allocations under the Dairy Export Incentive Program (DEIP) for the July-June 2004/05 year. DEIP allocations of 68,201 metric tons of nonfat dry milk, 21,097 tons of butterfat and 3,030 tons of various cheeses may be made available through future Invitations for Offers. These allocations correspond to total World Trade Organization limits for this year's DEIP.

Because of current international and domestic market conditions, Invitations for Offers will not immediately be made available. USDA will continue to monitor market conditions closely to determine when invitations on these allocations may be issued. Export sales of these products under DEIP will be facilitated through the payment of bonuses by USDA's Commodity Credit Corporation. Sales of nonfat dry milk, butterfat and eligible cheeses will be made through normal commercial channels at competitive world prices. Individual product/country allocations will be specified in the Invitations for Offers. Country/region quantities may be limited by the applicable invitation.

Information about the DEIP, including Invitations for Offers when issued, can be found on the Internet at <http://www.fas.usda.gov/excredits/deip.html> or by calling the Operations Division, Export Credits, Foreign Agricultural Service, at (202) 720-3224 or (202) 720-6211. FAS news releases are available on the Internet at <http://www.fas.usda.gov>. For additional information about Web access, contact FAS Public Affairs Division at (202) 720-7115.

FEDERAL MILK ORDER PRICE AND POOL SUMMARY, AUGUST

HIGHLIGHTS - Handler reports of receipts and utilization under the Federal milk order system for August have been filed and tabulated. Combined totals for the 10 orders are being released. During August, about 9.6 billion pounds of milk were received from producers. This volume of milk is 45.6 percent higher than the August 2003 volume on a comparable market basis. (Taking into account the volume of milk not pooled due to intraorder disadvantageous price relationships, the year-to-year change is +3.3 percent.) About 3.7 billion pounds of producer milk were used in Class I products, 0.9 percent higher than the previous year on a comparable market basis. Calendar composition had virtually no impact on milk used in Class I in 2004 as compared to 2003. The all-market average Class utilization percentages were; Class I = 38%, Class II = 13%, Class III = 39%, and Class IV = 10%. The weighted average statistical uniform price was \$14.99 per cwt., \$1.85 lower than last month, and \$1.95 higher than last year.

PRICE AND POOL STATISTICS FOR FEDERAL MILK ORDER MARKETING AREAS FOR THE MONTH OF AUGUST 2004										
FEDERAL MILK ORDER MARKETING AREA ^{1/}	ORDER NUMBER	RECEIPTS OF PRODUCER MILK		UTILIZATION OF PRODUCER MILK IN CLASS I			UTILIZATION OF PRODUCER MILK IN OTHER CLASSES			UNIFORM PRICE ^{2/}
		TOTAL	CHANGE FROM PREV. YEAR ^{3/}	TOTAL	CHANGE FROM PREV. YEAR ^{3/}	PERCENT	CLASS II	CLASS III	CLASS IV	
		MIL. LBS.	PERCENT	MIL. LBS.	PERCENT		PERCENT			\$ PER CWT.
Northeast (Boston)	001	1,890.5	-2.7	862.3	-1.1	46	20	24	10	15.57
Appalachian (Charlotte)	005	537.4	11.7	366.5	-2.6	68	15	7	10	16.16
Southeast (Atlanta)	007	593.6	23.0	401.1	5.0	67	13	11	9	16.17
Florida (Tampa)	006	219.9	3.5	189.8	1.8	86	10	^{4/}	4	17.49
Mideast (Cleveland)	033	1,546.1	53.4	534.0	-1.6	34	16	45	5	14.61
Upper Midwest (Chicago)	030 ^{5/}	2,001.5	210.7	360.7	10.6	18	7	68	7	14.26
Central (Kansas City)	032	1,230.8	88.4	367.3	-5.9	30	12	50	9	14.46
Southwest (Dallas)	126 ^{5/}	777.9	39.2	354.9	4.1	46	14	26	14	15.49
Arizona-Las Vegas (Phoenix)	131	222.1	-0.5	82.3	6.2	37	11	34	18	14.56
Western (Salt Lake City)	135 ^{6/}	----	---	---	---	---	---	---	---	---
Pacific Northwest (Seattle)	124 ^{5/}	619.8	49.3	176.3	4.5	29	7	34	30	14.15
ALL MARKET AVERAGE OR TOTAL	^{3/} ^{5/}	9,639.8	45.6	3,695.2	0.9	38	13	39	10	14.99

^{1/} Names in parentheses are the major city in the principal pricing point of the market.

^{2/} Statistical uniform price for component pricing orders (Class III price plus producer price differential). For other orders, uniform skim milk price times 0.965 plus uniform butterfat price times 3.5.

^{3/} Percent changes from the previous year are based on the same group of comparable markets—markets where the orders were in effect for both years. Excludes the Western Federal milk order; see ^{5/}.

^{4/} Less than 0.5 percent

^{5/} Due to a disadvantageous relationship between intraorder class prices and the location adjusted statistical uniform (blend) price in these markets, handlers elected not to pool an estimated 240 million pounds of milk that normally would have been associated with these markets. In August 2003, the estimated not-pooled volume of milk was 3.2 billion pounds, occurring in Order Nos. 005, 007, 030, 032, 033, 124, 126, and 135. After adjusting for these not-pooled volumes, the year-to-year percent change is +3.3.

^{6/} Effective April 1, 2004, the Western Milk Marketing Order was terminated.

CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF SEPTEMBER 20 - 24, 2004			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/03	SAME PERIOD LAST YEAR	WEEK ENDING 09/17/04	SAME PERIOD LAST YEAR
BUTTER							
Bulk	-0-	-0-	-0-	-42,309	10,133,351	-0-	-0-
Packaged	-0-	-0-	-0-	-0-	1,313,280	-0-	-0-
TOTAL	-0-	-0-	-0-	-42,309	11,446,631	-0-	-0-
CHEESE							
Block	-0-	-0-	-0-	-0-	3,840,106	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	5,406,631	-0-	-0-
Process	-0-	-0-	-0-	-0-	31,838,400	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	41,085,137	-0-	-0-
NONFAT DRY MILK							
Nonfortified	3,370,755#	-0-	3,370,755	357,203,150#	620,981,106	575,951,000	1,153,392,000
Fortified	-0-	-0-	-0-	-119,048	706,989	46,391,000	46,391,000
TOTAL	3,370,755	-0-	3,370,755	357,084,102	621,688,095	622,342,000	1,199,783,000

Export Donation Program under Invitation 080 to announcement FMP1. The estimated cumulative under Invitation 080 is 104,504,297. \$ Includes export donation deliveries under Invitation 070.

MILK EQUIVALENT, FAT SOLIDS BASIS, OF ADJUSTED PURCHASES (MILLION POUNDS)

	MILKFAT* BASIS	SKIM** SOLIDS		MILKFAT* BASIS	SKIM** SOLIDS
WEEK OF SEPTEMBER 20 - 24, 2004 =	0.7	39.2	COMPARABLE PERIOD IN 2003 =	0.9	45.5
CUMULATIVE SINCE OCTOBER 1, 2003 =	77.6	4,156.5	CUMULATIVE SAME PERIOD LAST YEAR =	765.5	7,644.6
CUMULATIVE JAN. 1 - SEPT. 24, 2004 =	52.1	2,807.2	COMPARABLE CALENDAR YEAR 2003 =	691.4	6,379.0

* Factors used for Fat Solids Basis - Butter times 21.80; Cheese times 9.23; and Nonfat Dry Milk times 0.22
 **Factors used for Skim Solids Basis - Butter times 0.12; Cheese times 9.90; and Nonfat Dry Milk times 11.64

CCC ADJUSTED PURCHASES FOR THE WEEK OF SEPTEMBER 20 - 24, 2004 (POUNDS)

REGION	BUTTER			CHEESE			NONFAT DRY MILK	
	BULK	PACKAGED	UNSALTED	BLOCK	BARREL	PROCESS	NONFORTIFIED	FORTIFIED
CENTRAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
WEST	-0-	-0-	-0-	-0-	-0-	-0-	3,370,755	-0-
EAST	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-

CCC ADJUSTED PURCHASES SINCE 10/1/03 AND SAME PERIOD LAST YEAR (POUNDS) AND MILK EQUIVALENT AS A PERCENT OF TOTAL

REGION	BUTTER		CHEESE		NONFAT DRY MILK		MILK EQUIVALENT (%)	
	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03	2003/04	2002/03
CENTRAL	-0-	-0-	-0-	32,049,972	8,493,089	24,411,395	2.4	39.3
WEST	-42,309	11,446,631	-0-	9,035,165	344,307,239	559,706,904	96.4	59.6
EAST	-0-	-0-	-0-	-0-	4,283,774	37,569,796	1.2	1.1
TOTAL	-42,309	11,446,631	-0-	41,085,137	357,084,102	621,688,095	100.0	100.0

NDM SELLBACK TO THE TRADE The cumulative sellback total for 2004 is **67,347,152 pounds**.

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS PRODUCED ON OR AFTER NOVEMBER 15, 2002

MANUFACTURING MILK Average Test 3.67% - \$9.90 per cwt.

BUTTER Bulk \$1.0500 per pound; 1# Prints \$1.0850
CHEESE 40 & 60# Blocks \$1.1314 per pound; 500# Barrels \$1.1014; Process American 5# \$1.1889; Process Am. 2# \$1.2289
NONFAT DRY MILK Nonfortified \$.8000 per pound; Fortified \$.8100; Instant \$0.9625

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 09/04/04 & Comparable Week 2003

Regions* (000 HEAD)	U.S. TOTAL										% DAIRY OF ALL			
	1	2	3	4	5	6	7	8	9	10	WEEK SINCE JAN 1	WEEK SINCE JAN 1		
2004-Dairy	0.0	0.7	7.9	2.2	18.6	3.1	0.7	0.4	13.1	2.0	48.8	1,616.5	48.5	47.1
2003-Dairy	0.2	0.7	7.0	4.6	19.0	2.6	0.1	1.0	11.9	2.8	49.9	1,931.0	49.1	47.6
2004-All cows	0.1	0.8	9.4	11.8	29.1	15.2	12.0	1.7	15.0	5.7	100.7	3,429.7		
2003-All cows	0.2	0.9	9.1	12.3	29.3	15.9	11.7	2.5	13.5	6.3	101.6	4,060.9		

SOURCE The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, the Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2001	9.99	10.27	11.42	12.06	13.83	15.02	15.46	15.55	15.90	14.60	11.31	11.80
2002	11.87	11.63	10.65	10.85	10.82	10.09	9.33	9.54	9.92	10.72	9.84	9.74
2003	9.78	9.66	9.11	9.41	9.71	9.75	11.78	13.80	14.30	14.39	13.47	11.87

FEDERAL MILK ORDER CLASS PRICES FOR 2004 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	11.85	11.59	11.94	13.64	19.65	21.13	17.95	14.62	13.94	14.78		
II	11.67	12.90	14.79	15.21	15.03	14.31	14.00	13.13				
III	11.61	11.89	14.49	19.66	20.58	17.68	14.85	14.04				
IV	10.97	12.21	14.10	14.57	14.50	13.72	13.31	12.46				

1/ Specific order differentials to be added to this base price are located at www.ams.usda.gov/dyfm0s/mib/cls_prod_cmp_pr.htm