

**NATIONAL DAIRY MARKET AT A GLANCE****CHICAGO MERCANTILE EXCHANGE (CME) CASH MARKETS (01/23):**

**BUTTER:** Grade AA closed at \$1.4225. The weekly average for Grade AA is \$1.4125 (+.0158).

**CHEESE:** Barrels closed at \$1.2550 and blocks at \$1.3000. The weekly average for barrels is \$1.2550 (N.C.) and blocks, \$1.3013 (-.0037).

**BUTTER:** Butter prices remain firm at the CME cash market. Churning activity has dropped off from the recent holiday period, although maintaining moderate schedules at many butter operations. Cream supplies tightened early in the month, but now have become more available. Butter producers indicate that cream pricing multiples have eased, although the base price remains higher than desired for this time of the season. Producer stocks are adequate for the mostly fill-in demand. Current production is keeping pace with demand and in instances, surplus butter is entering inventory programs. Buying interest is fair. Buyers are starting to return to the market after clearing their pre-holiday inventories, although orders are mostly for immediate needs. Some buyers indicate that they would rather place more limited volume orders versus carrying an inventory in the event of lower prices in the near term.

**CHEESE:** The cheese market is steady. Current movement is moderate on natural and fair at best on process. Supplies for Super Bowl activities have moved through distribution channels. Recent announcements of CWT supported international cheese sales (totaling 3.42 million pounds) and DEIP sales (6.8 million pounds) add market support along with higher prices for grain and the reduction in Posilac (BST) supplies. Current cheese production is steady to slightly higher, depending on milk intakes and Class I usage across the country.

**FLUID MILK:** Class I demand was steady to lighter, depending on area, impacting the milk supply available for manufacturing. Currently, milk intakes are increasing in the Southeast, Arizona, New Mexico, and California. Fluid intakes are about steady in the Central and Northeast while steady to lower in the Pacific Northwest. Higher prices for replacement heifers, increasing grain prices, as well as reductions in BST supplies along with winter weather are factors that may impact milk production.

**DRY PRODUCTS:** The buttermilk market is steady to firm. Offerings have increased from some suppliers while others continue to catch up on previously placed orders. Current interest is fair. Lactose is also firm, aided by increased international interest. Current production is steady and supplies are in balance. The NDM market is steady, aided by heavy clearances to CCC. Drying schedules are steady to lighter due to good Class I and competing dairy product demand for milk. The whey market is weak. Supplies are available and sellers are more aggressive in trying to clear inventory. Another weak market with lower prices is WPC, where buyers loaded up late last year and are waiting for prices to settle before making additional commitments.

**CCC:** During the holiday abbreviated week of January 19 - 23, CCC purchased 11,970,407 pounds of Western and 945,606 pounds of Eastern NDM.

**DECEMBER MILK PRODUCTION (NASS):** Milk production in the 20 major states during December totaled 12.3 billion pounds, down 0.3% from

December 2002. Production per cow in the 20 major States averaged 1,589 pounds for December, 14 pounds (0.9%) above December 2002. The number of cows on farms in the 20 major states was 7.71 million head, 93,000 head less (-1.2%) than December 2002, but unchanged from November 2003. The October-December quarterly production of milk for the U.S. was 41.3 billion pounds, 0.6% below the October-December quarter last year. The average number of milk cows in the U.S. during the October-December quarter was 9.01 million head, 141,000 head less than the same period last year. The initial estimate for 2003 U.S. milk production is 169.65 billion pounds, down 105 million (-0.1%) from 2002.

**DAIRY OUTLOOK (ERS):** Dairy markets have been a bit confused in recent weeks as traders attempted to sort out the effects of continued declines in supplies of milk for manufacturing, a pickup in dairy product demand, declining commercial stocks, and possible changes in cull cow prices and cheeseburger demand due to the discovery of a BSE case in the United States. The basic supply-demand balance appears to have tightened in recent months, largely because of better demand than anticipated. Moderate recovery in dairy demand likely will be sustained in 2004. Reactions by consumers, foreign beef buyers, and regulatory agencies to the discovery of a BSE-infected cow in Washington might influence both milk production and use of some dairy products in a number of subtle ways. Both butter and cheese prices are projected to run significantly higher than during the first half of 2003.

**COLD STORAGE (NASS):** During December, U.S. cold storage holdings of butter totaled 99.6 million pounds, 22.9 million pounds (-19%) less than November and 58.2 million pounds (-37%) less than last December. Natural American cheese holdings total 492.3 million pounds, 25.1 million pounds (5%) more than a month ago though down 900,000 pounds (N.C.) from last December.

**DECEMBER FEDERAL MILK ORDER PRICE AND POOL SUMMARY (DAIRY PROGRAMS): HIGHLIGHTS.** During December, about 10.4 billion pounds of milk were received from producers. This volume of milk is 0.8% lower than the December 2002 volume. (Taking into account the volume of milk not pooled due to intraorder disadvantageous price relationships, the year-to-year change is -3.7%.) About 4.0 billion pounds of producer milk were used in Class I products, 1.3% higher than the previous year. Calendar composition likely had a positive impact on milk used in Class I in 2003 as compared to 2002.

**FEDERAL MILK ORDER ADVANCE PRICES HIGHLIGHTS (DAIRY PROGRAMS):** Under the Federal milk order pricing system, the base price for Class I milk for February 2004 is \$11.59, down 26 cents from January. This price is derived from the advanced Class III skim milk pricing factor of \$6.55 and the advanced butterfat pricing factor of \$1.5044 per pound. Class I differentials specific to each county are added to the base price to determine the Class I price. The Class II skim milk price for February is \$6.63 and the Class II nonfat solids price is \$0.7367 per pound. The following are the two-week product price averages: butter \$1.3687, nonfat dry milk \$0.8051, cheese \$1.2977, and dry whey \$0.1824.

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

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**CHICAGO MERCANTILE EXCHANGE  
CASH TRADING**

CHEESE: carload = 40,000-44,000 lbs., BUTTER: carlot = 40,000-43,000 lbs.

| PRODUCT            | MONDAY<br>JANUARY 19 | TUESDAY<br>JANUARY 20 | WEDNESDAY<br>JANUARY 21 | THURSDAY<br>JANUARY 22 | FRIDAY<br>JANUARY 23 | WEEKLY<br>CHANGE* | WEEKLY<br>AVERAGE#   |
|--------------------|----------------------|-----------------------|-------------------------|------------------------|----------------------|-------------------|----------------------|
| CHEESE<br>BARRELS  | NO                   | \$1.2550<br>(N.C.)    | \$1.2550<br>(N.C.)      | \$1.2550<br>(N.C.)     | \$1.2550<br>(N.C.)   | (N.C.)            | \$1.2550<br>(N.C.)   |
| 40# BLOCKS         | TRADING              | \$1.3050<br>(N.C.)    | \$1.3000<br>(-.0050)    | \$1.3000<br>(N.C.)     | \$1.3000<br>(N.C.)   | (-.0050)          | \$1.3013<br>(-.0037) |
| BUTTER<br>GRADE AA | HOLIDAY              | ----                  | \$1.4025<br>(+.0025)    | ---                    | \$1.4225<br>(+.0200) | (+.0225)          | \$1.4125<br>(+.0158) |

\*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 (NOTE: The NDM daily/weekly prices are reported here when changes occur. The Extra Grade price is \$8400 and Grade A price is \$8400. NDM information remains available at the above internet address.)

**CHICAGO MERCANTILE EXCHANGE**

MONDAY, JANUARY 19, 2004

HOLIDAY, NO TRADING

TUESDAY, JANUARY 20, 2004

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.2550

WEDNESDAY, JANUARY 21, 2004

CHEESE — SALES: 2 CARS 40# BLOCKS: 1 @ \$1.3000, 1 @ \$1.2975; BIDS UNFILLED: 1 CAR 40# BLOCKS @ \$1.3000; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.2550

BUTTER — SALES: 4 CARS GRADE AA @ \$1.4000; BIDS UNFILLED: 5 CARS GRADE AA: 1 @ \$1.4025, 1 @ \$1.4000, 1 @ \$1.3975, 2 @ \$1.3500; OFFERS UNCOVERED: NONE

THURSDAY, JANUARY 22, 2004

CHEESE — SALES: NONE; BIDS UNFILLED: NONE; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.2550; 1 CAR 40# BLOCKS @ \$1.3000

FRIDAY, JANUARY 23, 2004

CHEESE — SALES: NONE; BIDS UNFILLED: 1 CAR 40# BLOCKS @ \$1.3000; OFFERS UNCOVERED: 1 CAR BARRELS @ \$1.2550

BUTTER — SALES: NONE; BIDS UNFILLED: 3 CARS GRADE AA: 2 @ \$1.4225, 1 @ \$1.4025; OFFERS UNCOVERED: NONE

**BUTTER MARKETS**

**DECEMBER COLD STORAGE**

According to NASS, December month-ending cold storage figures for butter total 99.6 million pounds, 36.9% less than last December and 18.8% less than November 2003 holdings.

**NORTHEAST**

The market tone is mostly steady as the CME cash price for butter has held at or near the \$1.39 level for six sessions (through 1/16). Churning activity in the East is moderate. Some plants are still churning on heavy schedules, while others are no longer making butter. Producer stocks are adequate for the mostly fill-in demand. However, retailers are starting to come back into the market after clearing their pre-holiday inventories. However, orders are mostly for immediate needs. Not all buyers are convinced that this price will hold this high much longer, but they don't want to limit purchases too much, in case the price does move higher. Retail sales are slow as prices have moved up in the past weeks. Food service orders are mostly steady. Sales of bulk butter f.o.b. East, are reported in a range of flat market to 4.5 cents over the CME price/average.

**CENTRAL**

The butter market tone is unsettled, although the CME cash butter price held basically steady in recent trading sessions. Many producers and handlers continue to question how long will this firmness be maintained. Some feel that reports of shortages and firm prices for 2004 are causing prices to remain firm at this time. Churning schedules are seasonally active as cream offerings are more available this week. Midwestern butter producers indicate that pricing multiples have eased, although the base price remains higher than desired. In

most instances, current churning schedules are surpassing demand thus surplus butter stocks are clearing to inventory. Buying interest is fair at best, with many buyers placing short term or immediate need orders only. Some buyers indicate that they would rather place more limited volume orders versus carrying an inventory in the event of lower prices in the near term. Bulk butter for spot sale is available and is being reported in the flat - 2 cents per pound range over various pricing basis.

**WEST**

Butter prices continue to hold near the \$1.40 mark at the cash CME market. A fair amount of butter was sold last week on the Exchange at prices in that neighborhood. Contacts are still expressing concern that prices are on the high side for this early in the year to make it work to hold butter for fall needs. Cream supplies are available for churning at levels a bit higher than anticipated. Some report that retail sales are slower since there is little feature activity and base prices have moved higher. Others indicate that print orders for both quarters and one pound prints have improved. Food service orders are fair for this time of year. U.S. Cold Storage stocks for the end of December 2003 total 99.6 million pounds, down 37% from last year. This is a decrease of 58.3 million pounds over the calendar year or more than 1 million pounds less per week on average. Current prices for bulk butter range from 1 cent under the market to 4 cents under based on the CME with various time frames and averages. CME weekly butter inventories increased by 5.28 million pounds for the most current week, reaching 73.6 million pounds. Since stocks began to grow four weeks ago, they have increased 17.7 million pounds this year compared to 25.6 million pounds last year.

**NASS DAIRY PRODUCT PRICES**

U.S. AVERAGES AND TOTAL POUNDS

| WEEK ENDING | CHEESE     |                      | NDM        | BUTTER    | DRY WHEY   |
|-------------|------------|----------------------|------------|-----------|------------|
|             | 40# BLOCKS | 38% MOISTURE BARRELS |            |           |            |
| JANUARY 17  | 1,2982     | 1,2566               | 0.8065     | 1,3869    | 0.1804     |
|             | 8,747,998  | 11,542,281           | 27,084,154 | 4,124,615 | 12,677,200 |

Further data and revisions may be found on the internet at: <http://jan.mannlib.cornell.edu/reports/nassr/price/dairy>

**CHEESE MARKETS**

**NORTHEAST**

Prices are fractionally higher again this week. However, the cash price for cheddar cheese at the CME was steady most of last week. Eastern cheese makers are reporting steady to slower output due to lighter volumes of surplus milk in the region. Contacts stated that Class I milk demand held up much better than expected last week, which affected surplus milk availability. Cheese stocks are fully adequate for the slow to fair retail demand. Food service order are holding up quite well.

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

|                             |   |               |
|-----------------------------|---|---------------|
| Cheddar 10# Prints          | : | 1.3725-1.8775 |
| Cheddar Single Daisies      | : | 1.3300-1.7950 |
| Cheddar 40# Block           | : | 1.4450-1.6950 |
| Process 5# Loaf             | : | 1.4650-1.6650 |
| Process 5# Sliced           | : | 1.4850-1.7225 |
| Muenster                    | : | 1.5450-1.7375 |
| Grade A Swiss Cuts 10 - 14# | : | 2.3500-2.5500 |

**MIDWEST**

The cheese market is steady. Recently announced awards under the voluntary CWT export program as well as DEIP, are expected to help reduce cheese volumes. The shifting of some Western production capacity from barrels may reduce the discounting on barrels and the wider than usual (currently 5 cents) spread between blocks and barrels. Though uneven, best interest remains on natural varieties compared to process. Contracted volumes of most varieties are steady with spot interest unevenly moderate. Orders for anticipated Super Bowl needs are working through distribution channels. Some buyers continue to look for aged cheddar to help with orders. A few plant operators are still having problems acquiring extra fluid volumes to fill orders without large premiums. Good January Class I movement continues to reduce cheese production schedules at some locations. Current milk intakes are steady to slightly higher. Cheese yields are fairly steady.

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

|   |   |               |
|---|---|---------------|
| Process American 5# Loaf                    | : | 1.4350-1.7600 |
| Brick And/Or Muenster 5#                    | : | 1.7700-1.9600 |
| Cheddar 40# Block                           | : | 1.6575-2.1150 |
| Monterey Jack 10#                           | : | 1.8400-2.1150 |
| Blue 5#                                     | : | 2.0550-2.4800 |
| Mozzarella 5 - 6# (Low Moisture, Part Skim) | : | 1.6025-2.2150 |
| Grade A Swiss Cuts 6 - 9#                   | : | 2.0000-2.6850 |

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

|          |        |   |         |
|----------|--------|---|---------|
|          | BUTTER | : | CHEESE  |
|          |        | : |         |
| 01/19/04 | 39,691 | : | 135,139 |
| 01/01/04 | 36,157 | : | 128,833 |
| CHANGE   | 3,534  | : | 6,306   |
| % CHANGE | 10     | : | 5       |

**WEST**

Process cheese prices moved fractionally higher following trading at the CME cash cheese market last week. Prices for Swiss and natural items held steady. Block cheese offerings in the West remain on the tight side for current levels of interest. Promotions related to the Super Bowl are being credited with taking quite a bit of additional cheese. Contacts wonder if the market might falter when this event has passed. Barrel cheese and processing solids seem to be more available. Down graded cheese has to be discounted further at this time to get it to move. Warehouse stocks of cheese grew related to heavy holiday production and they have not backed off much by the third week in January. Swiss sales activity seems to be about average for the season. Mozzarella sales have improved, but there still are frozen stocks that will have to work through the system at some point. U.S. Cold Storage stocks of American cheese at the end of December 2003 total 492.3 million pounds, basically unchanged from a year earlier. Swiss stocks, at 27.2 million pounds, are 25% above a year ago, an increase of 5.4 million pounds. Milk supplies seem to be about at anticipated levels for mid-January.

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

|                           |   |               |
|---------------------------|---|---------------|
| Process 5# Loaf           | : | 1.4025-1.6625 |
| Cheddar 40# Block         | : | 1.4325-1.7825 |
| Cheddar 10# Cuts          | : | 1.6125-1.8325 |
| Monterey Jack 10#         | : | 1.6225-1.7825 |
| Grade A Swiss Cuts 6 - 9# | : | 2.2500-2.4600 |

**FOREIGN**

Prices are often fractionally higher on domestic styles and the market tone remains steady for this time of year. In recent days, the Dollar has rebounded slightly against the Euro, but the exchange rate is still such that the U.S. Dollar buys less product in countries where the Euro is used.

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

|                          |   |                 |                  |
|--------------------------|---|-----------------|------------------|
|                          |   |                 | <b>NEW YORK</b>  |
| VARIETY                  | : | IMPORTED        | : DOMESTIC       |
|                          | : |                 | :                |
| Roquefort                | : | TFEWR           | : -0-            |
| Blue                     | : | 2.6400-3.7200   | : 1.6675-3.1575* |
| Gorgonzola               | : | 3.6900-5.9400   | : 2.1850-2.4900* |
| Parmesan (Italy)         | : | TFEWR           | : 3.0775-3.1675* |
| Romano (Italy)           | : | 2.1000-3.1500   | : -0-            |
| Provolone (Italy)        | : | 3.4400-5.5000   | : 1.6750-1.9025* |
| Romano (Cows Milk)       | : | -0-             | : 2.8650-5.0375* |
| Sardo Romano (Argentina) | : | 2.8500-3.2900   | : -0-            |
| Reggianito (Argentina)   | : | 2.6900-3.2900   | : -0-            |
| Jarlsberg-(Brand)        | : | 2.7500-3.7900   | : -0-            |
| Swiss Cuts Switzerland   | : | -0-             | : 2.3500-2.5500  |
| Swiss Cuts Finnish       | : | 2.5900-2.8500   | : -0-            |
| Swiss Cuts Austrian      | : | TFEWR           | : -0-            |
| Edam                     | : |                 | :                |
| 2 Pound                  | : | TFEWR           | : -0-            |
| 4 Pound                  | : | 2.1900-3.2500   | : -0-            |
| Gouda, Large             | : | TFEWR           | : -0-            |
| Gouda, Baby (\$/Dozen)   | : |                 | :                |
| 10 Ounce                 | : | 27.8000-31.7000 | : -0-            |

\* = Price change.

FLUID MILK AND CREAM

EAST

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          | 0         | 48  | 12        | 0   | 10        | 0   |
| SOUTHEAST STATES | 0         | 0   | 0         | 0   | 0         | 0   |

**EDITOR'S NOTE:** Due to changes in milk supply agreements, milk import/export totals are not directly comparable to year ago figures and to shipments prior to April 1, 2003.

During December, milk production in the 20 major states totaled 12.3 billion pounds, down 0.3% from December 2002. The following are the December-to-December changes for selected states: Texas +9.4%, Vermont -2.7%, New York -3.7%, Florida -5.1%, Kentucky -5.4%, Pennsylvania -6.9%, and Virginia -9.1%. This week, many contacts are attending the IDF meetings in Florida and are unavailable for comment. Also, the news about an Italian dairy conglomerate's financial problems is starting to manifest itself here in the U.S. Reportedly, last Friday's milk payments to their farmers in the Northeast were missed and continue to be missed through the time of this report. The company has made assurances that funds are available to make these payments. This issue is causing growing concern in the milk/dairy markets of the East. Milk production is showing more signs of increasing in the Southeast and Middle Atlantic areas where the weather has modified. However, the Northeast is still in the grip of very cold weather and the milk flow is holding. Demand for Class I milk has caught up with needs. Bottlers were canceling loads late last week and early this week now that bottling needs have settled into more normal patterns. Florida has too much milk now that production is increasing and bottled milk sales are leveling off. Contacts in the other Southeastern states report that they have more surplus milk this week and are taking less intra-company milk from other parts of the country. Some manufacturing plants were re-opened to handle this additional milk. The condensed skim market is little changed. However, prices for Class III condensed skim did move a little lower this week. The fluid cream market is a little firmer, but some excess loads are still finding their way to butter makers. Spot prices are steady to slightly higher. Last week's CME butter average increased fractionally. Ice cream makers are replenishing inventories and some are taking extra loads of cream while it is available. Cream cheese production is mostly steady.

pounds, down 16 million pounds (-0.9%); Minnesota 698 million pounds, off 15 million pounds (-2.1%); Michigan 519 million pounds, up 15 million pounds (3.0%); and Iowa 306 million pounds, off 16 million pounds (-5.0%).

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

|                           | JAN 15 - 21     | PREVIOUS YEAR |
|---------------------------|-----------------|---------------|
| SLAUGHTER COWS            | \$ 46.00- 51.00 | N.A.          |
| REPLACEMENT HEIFER CALVES | \$290.00-420.00 | N.A.          |

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

|                | JAN 15 - 21     | PREVIOUS YEAR   |
|----------------|-----------------|-----------------|
| SLAUGHTER COWS | \$ 46.00- 52.00 | \$ 33.50- 43.00 |

WEST

U.S. 20-State milk production for December totals 12.3 billion pounds, down 0.3% from December 2002. Output in selected Western states compared to last year is as follows: Arizona +2.1%, California +0.8%, Idaho +5.6%, New Mexico +6.5%, and Washington -1.9%. Cow numbers in these five states are 59,000 ahead of last year. Production per cow is mixed with California remaining negative compared to last year. Fourth quarter output for the U.S. is 41.3 billion pounds, down 0.6% from the same quarter last year. Output for selected Western states compared to last year is as follows: Arizona +2.1%, California +0.1%, Colorado no change, Idaho +7.8%, New Mexico +5.5%, Oregon -0.4%, Utah -2.7%, and Washington -1.1%. CALIFORNIA milk production is slowly increasing across the state. The call for fluid milk subsided from last week and is expected to settle into a normal pattern for the near term. Weather conditions are good in the southern producing area, where milk supplies are building slightly. Plants are running well and taking expected milk supplies. Processors are not shifting milk around for inventory or price reasons, but making products as expected. In the Central Valley, milk volumes are higher for some plants. Part of the increase is due to plants receiving new producers' milk and contract milk. Seasonally, the milk trend is higher. Plants are running well in the region. Further north, milk supplies are flat to just slightly higher. Milk production across most of ARIZONA continues to move slightly higher on a week to week basis. Levels are noted to be from 2 to 4% higher than a year ago. More cows in milk, along with higher production per cow, are creating additional milk supplies. Plant capacities are adequate to handle current milk supplies and future growth as time moves towards the seasonal peak. Less surplus milk is being processed from nearby states. NEW MEXICO milk production is said to be slowing following growth in recent weeks. Total volumes are above year ago levels in most milksheds. Additional cows and facilities are being added in the state. Milk is moving on contracts to regular accounts and additional milk is being shipped to the Southeast. Milk is available for processing plants in the state. CREAM markets continue to be unsettled. Cream availability is increasing despite better demand from ice cream producers. Excess cream is ending up at churns, which is still welcomed as butter orders and storage programs need butter. The CME butter price is holding fully steady and closed at \$1.4025 on Wednesday, January 21. Multiples are often lower within the range and are trading from 112 to 124, FOB, depending on class usage and basing point. Normal winter weather patterns are common over the PACIFIC NORTHWEST. Milk output ranges from on estimate to slightly below. Fat and protein tests continue at good seasonal levels. Some comments are noted concerning continued financial stress for some producers. With feed prices going up, top quality hay almost gone, and milk prices down from the seasonal peak, they are wondering if they will be able to hang on through the winter. The upcoming MILC payments may help some that are not too large. A weather inversion that has trapped air pollutants in mountain valleys for three weeks now continues to plague parts of UTAH and IDAHO. The high pressure system may move out at the end of the week allowing some storms to pass through and clean things out. The current pattern has also limited moisture in the region since the holiday storms. Half the snow season is now past and the water outlook for next crop year is deteriorating. Some producers are reporting that the conditions are negatively impacting current milk production. A regional heifer sale last week recorded sharply higher prices. The top of the market reached \$2000 and the average on the top 100 head was \$1610. The high has not reached \$2000 since June of last year and the average has not been above \$1600 since August.

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, \$ PER LB BUTTERFAT

|  |   |                               |
|--|---|-------------------------------|
| F.O.B. PRODUCING PLANTS: NORTHEAST     | - | 1.6062-1.8855                 |
| DELIVERED EQUIVALENT ATLANTA           | - | 1.6760-1.8995 M 1.7319-1.7877 |
| F.O.B. PRODUCING PLANTS: UPPER MIDWEST | - | 1.7598-1.9554                 |

PRICES OF CONDENSED SKIM, \$ PER LB WET SOLIDS

|   |   |              |
|---|---|--------------|
| F.O.B. PRODUCING PLANTS:                              |   |              |
| NORTHEAST- CLASS II - INCLUDES MONTHLY FORMULA PRICES | - | .8700- .9300 |
| NORTHEAST- CLASS III - SPOT PRICES                    | - | .9000-1.0000 |

MIDWEST

Class I sales remain good; though off slightly for a few operations from earlier in the month. Retail feature activity in some markets is stimulating fluid sales as well as for Class II products. Cottage cheese, dips, and sour cream production are also active for diet and/or upcoming party needs. A fluid plant in the region had cooling problems, causing additional milk packaging to be shifted to another operation for a few days. Manufacturing schedules are generally steady as strong Class I use is impacting milk volumes available at some plants. Cream demand seems a little softer at current prices. Reported spot milk prices range from \$0.90 to \$1.65 net over class. Current plant intakes seem little changed, due in part to colder weekend temperatures and higher cash grain prices. Fat and protein tests seem little changed. Some in the industry have noted that their milk intakes really haven't changed a great deal during the past 2 months. With Posilac supplies announced as being limited for the short term and cash elevator prices for soybeans over \$8.00 per bushel and corn over \$2.40, producers may elect to sell more cash grain rather than use it as feed for their cattle. The December initial estimated milk production in selected Midwestern states compared with December 2002 is: Wisconsin 1.839 billion

**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 are unchanged on a steady market. Production of NDM remains mixed. Good Class I demand is deterring milk intakes at some NDM operations. However, seasonal increases in milk supply are readily diverted into NDM plants at other locations. Supplies of 50# bags of NDM are tight. NDM in 25 kg bags is readily available, especially due to released NDM from the CCC pudding and cheese exchanges. Resale supplies are trading near the lower end of the range. Condensed skim movement into Class II is good for the mostly contractual interest.

EAST: Prices and the market tone are mostly steady. Continued offerings to CCC from Eastern producers are noted. It is noteworthy that this week's offerings to CCC came from more than one plant. Up until now, only one Eastern plant had been offering NDM to CCC. Contacts feel that that number will increase as we move through the first quarter. Surplus milk volumes are mixed, but more comments indicate that volumes are increasing this week. Bottlers seem to have enough milk on hand to meet needs and many have cancelled loads this week. Drying activity is mostly steady, but some plants are still without natural gas service. Producer stocks of NDM are moderate and most of the volumes not sent to CCC are committed to regular buyers. Demand for NDM is mostly steady.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A  
 LOW/MEDIUMHEAT: .8000 - .8700 MOSTLY: .8100 - .8550  
 HIGHHEAT: .8500 - .9450

**NONFAT DRY MILK - WEST**

Low/medium heat NDM prices are holding steady. Then market tone is somewhat unsettled with very heavy offerings to the support program being used to balance excess supplies. Production was heavy over the past month and demand was light. Current drying schedules are lower as milk is being utilized in other products. Sellers are finding competition from resale NDM and other NDM from government programs. Several comments were noted that Western NDM being priced on the low end of the range can move into the Midwest and be competitive. During the week of January 12 - 16, CCC net purchases totaled 23.5 million pounds from the West. Net purchases across the U.S. totaled over 27.5 million pounds, the highest weekly total since the summer of 1985. High heat prices are unchanged. Market conditions are slow to develop. Sales are mostly to established accounts and spot interest remains light. Production is being reestablished after being reduced to maintain heavy low heat production over the holidays.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A  
 LOW/MEDIUMHEAT: .7950 - .8825 MOSTLY: .7950 - .8100  
 HIGHHEAT: .8325 - .8500

**CALIFORNIA MANUFACTURING PLANTS - NDM**

| WEEK ENDING | PRICE   | TOTAL SALES | SALES TO CCC |
|-------------|---------|-------------|--------------|
| January 16  | \$.8011 | 13,584,201  | 10,078,377   |
| January 9   | \$.8028 | 12,993,068  | 7,785,789    |

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 are unchanged and nominal on a steady market. Most trade activity is occurring on a contractual basis. Producers report that inquiries are very light. Spot trades are reported within the range despite more attractive prices reported in the West. Some resale loads are reportedly trading below the range. Production is unchanged to higher, increasing stocks at some locations. Movement of condensed buttermilk is steady to somewhat lower as ice cream interest seasonally wanes.

F.O.B. CENTRAL: .9500 - 1.0125

**DRY BUTTERMILK - NORTHEAST AND SOUTHEAST**

Prices are higher for the second consecutive week. The Northeastern prices remain nominal. The market tone is improving as producers comment that they are getting more inquiries for powder. Production, paralleling churning activity, continues to ease. Spot trading activity improved slightly.

F.O.B. NORTHEAST: .8525 - .8800  
 DELVDSOUTHEAST: .8800 - .9000

**DRY BUTTERMILK - WEST**

Western dry buttermilk prices are steady to slightly higher on the top end of the range. More buttermilk is being offered from some producers, but availability for others is limited as they catch up on past orders. Demand is fair for current offerings. Usage of condensed is active in ice cream production. Producers' inventories are light to moderate.

F.O.B. WEST: .8500 - .8900 MOSTLY: .8500 - .8700

**DRY WHOLE MILK - NATIONAL**

Prices are unchanged and nominal. The market tone is steady. Production levels are light to moderate and generally geared to meeting contract delivery schedules. Plant stocks are closely balanced. Demand is steady.

F.O.B. PRODUCING PLANT: 1.0925 - 1.2200

**DEIP BID ACCEPTANCE SUMMARY**

JULY 1, 2003 TO JANUARY 16, 2004  
 WITH CHANGES FROM PREVIOUS REPORT

|                 |    |        |                      |
|-----------------|----|--------|----------------------|
| NONFAT DRY MILK | -- | 68,201 | MT (150,355,925 LBS) |
| CHEESE          | -- | 3,030  | MT (6,799,938 LBS)   |
| CHANGE          | -- | 3,030  | MT (6,799,938 LBS)   |

Allocations for the DEIP year beginning July 1, 2003, were announced on August 15 and total 68,201 MT of NDM, 3,030 MT of cheese, and 21,097 MT of butterfat. (These totals are unchanged from last year's program.) This program-year's allocations are again being announced in stages. Stage one allocations are: NDM -- 22,733 MT, butterfat -- 7,032 MT, and cheese -- 1,010 MT. Stage two allocations are: NDM -- 45,468 MT and cheese -- 2,020 MT. These fill the program-year allocations for these products. The allocation for butterfat announced in stage one remains in place and leaves a balance for future, possible allocations.

**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 unchanged to lower on a weak market. While stocks at some locations are in better balance than the week prior, heavy offerings into feed and brokerage operations persist for multiple load shipments. Contracts for 2004 are commencing slowly. Export interest is light. Edible movement is mostly contractual. Some veal milk replacer facilities are reducing their whey intakes in response to reduced end-product demand. Milk replacer operations catering to markets other than veal report good demand and steady intakes of whey. Some veal operations are also reselling aged whey stocks to balance inventories. Permeate is readily available as a substitute to whey. Condensed whey offerings are heavy for the light interest.

F.O.B. CENTRAL: .1650 - .1850 MOSTLY: .1700 - .1825

**DRY WHEY - NORTHEAST AND SOUTHEAST**

Prices are often lower and the Northeastern prices remain nominal. The market tone is steady to weaker. Eastern whey is available for spot sale at "everyday" pricing premiums to the market average. Some Eastern producers are cutting back on cheese output, which does impact dry whey production. This may have some impact on the market if such reductions carry into the spring. Demand isn't very aggressive as most spot buyers continue to wait for more attractive prices. Traders report a continued "quiet" market. Interest is mostly for immediate or replacement needs.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .1825 - .2100  
DELVD SOUTHEAST: .2000 - .2175

**DRY WHEY - WEST**

Prices continue to move lower for Western whey powder. Buyers are taking minimal amounts in anticipation of possible lower prices in the near future. Stocks at a number of locations are heavier than desired for this time of year and sellers are becoming more aggressive in trying to move additional loads of powder. Production is heavier than anticipated at a number of manufacturing plants. New export sales are slow to develop currently. Sellers hope now that the Chinese New Year is past that sales activity will increase.

NONHYGROSCOPIC: .1500 - .2000 MOSTLY: .1600 - .1725

**ANIMAL FEED WHEY - CENTRAL**

Prices are unchanged and nominal on a weak market. Supplies are limited for the fair to good interest. Permeate is an attractive substitute to milk replacer supplies into some operations. Veal and early weaned pig prices are trending higher.

F.O.B. CENTRAL:  
MILK REPLACER: .1650 - .1700

**WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST**

Prices are generally lower on a weak market. Trade activity is light as many buyers secured stocks of WPC 34% when producers revealed additional availability prior to the year end. As a result, some buyers are well stocked and waiting for prices to settle before contracting for 2004 or purchasing additional spot loads. Block load offerings to feed buyers and resellers are heavy. WPC 80% from domestic and foreign sources is readily available as a substitute to WPC 34% into some feed applications. Brand specific and Grade A supplies are in balance and trading at a premium. Extra Grade stocks are long and generally moving at a discount. Off grade supplies are available for the light to fair interest.

F.O.B. EXTRA GRADE 34% PROTEIN: .4800 - .5550 MOSTLY: .5150 - .5400

**LACTOSE - CENTRAL AND WEST**

Lactose prices are unchanged on a firm market. Most trade is occurring on a contractual basis. Spot trades are generally at a premium to the market yet a few loads cleared at a discount to traders during the week. Bagged lactose is reportedly more attractive than totes. Inquiries are noted from Japan, Canada and India. EU buyers are also attempting to secure lactose from the US due to currency valuation advantages. Lactose production is generally steady and inventories are in balance. Off grade lactose movement is light with supplies somewhat difficult to clear due to competitive permeate product available.

Including spot sales and up to 3 month contracts. Mesh size 30 - 100.  
F.O.B. EDIBLE: .2100 - .2700 MOSTLY: .2200 - .2300

**CASEIN - NATIONAL**

Casein markets are firm with prices adjusting higher. It is unusual for prices to adjust this significantly within the quarter. The major reasons for the firmness at this time are the tight supply situation and international currency strength against the U.S. dollar. Domestic buyers are questioning how high will prices go and will there be sufficient volumes to meet their needs during upcoming months. Most feel that the market situation will be in a firm position for the next 12 - 18 months. Under invitation #013, bids are due January 26 for the purchase of an undetermined amount of government owned NDM for the manufacture of Casein/Caseinate.

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: 2.2500 - 2.4000  
ACID: 2.2500 - 2.4500

**EVAPORATED MILK - NATIONAL**

Prices and the market tone are unchanged. Production levels are steady to slightly higher this week. More surplus milk is reportedly available in most parts of the country. Demand remains slow to fair, a normal early-year pattern. The market remains highly competitive.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES \$19.00 - 30.00  
Excluding promotional and other sales allowances. Included new price announcements.

CHICAGO MERCANTILE EXCHANGE FUTURES

Selected settling prices, (open interest), and volume <sup>1/</sup>

| Month  | 01/07           | 01/08           | 01/09           | 01/12            | 01/13           | 01/14           | 01/15            | 01/16            | 01/19      | 01/20            |
|--|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|------------------|------------------|------------|------------------|
| <b>CME - (CLASS III) MILK FUTURES -- Dollars per cwt</b> |                 |                 |                 |                  |                 |                 |                  |                  |            |                  |
| JAN 04   | 11.60 (3351) 64 | 11.61 (3351) 1  | 11.61 (3227) 69 | 11.60 (3233) 162 | 11.60 (3205) 54 | 11.59 (3224) 35 | 11.61 (3225) 8   | 11.63 (3226) 16  | NO TRADING | 11.63 (3229) 14  |
| FEB 04   | 11.55 (2119) 39 | 11.53 (2153) 43 | 11.50 (2180) 81 | 11.52 (2173) 38  | 11.52 (2167) 7  | 11.52 (2194) 46 | 11.54 (2223) 40  | 11.55 (2240) 142 |            | 11.61 (2284) 109 |
| MAR 04   | 11.54 (1946) 60 | 11.49 (1964) 42 | 11.50 (1969) 34 | 11.55 (1967) 23  | 11.52 (1967) 1  | 11.52 (1998) 70 | 11.59 (2038) 71  | 11.63 (2068) 128 |            | 11.74 (2099) 117 |
| APR 04   | 11.71 (1463) 59 | 11.61 (1482) 39 | 11.65 (1495) 39 | 11.65 (1492) 26  | 11.59 (1493) 2  | 11.59 (1493) 85 | 11.64 (1514) 83  | 11.66 (1522) 101 |            | 11.75 (1601) 180 |
| MAY 04   | 11.65 (1520) 67 | 11.60 (1539) 55 | 11.65 (1550) 43 | 11.70 (1573) 65  | 11.71 (1578) 8  | 11.75 (1600) 95 | 11.82 (1618) 114 | 11.85 (1637) 66  |            | 11.97 (1655) 229 |
| JUN 04   | 12.38 (1321) 17 | 12.27 (1321) 42 | 12.30 (1342) 39 | 12.35 (1343) 2   | 12.33 (1348) 12 | 12.33 (1385) 68 | 12.38 (1400) 60  | 12.39 (1425) 61  |            | 12.48 (1436) 221 |
| JUL 04   | 12.93 (1166) 33 | 12.80 (1169) 37 | 12.77 (1193) 49 | 12.82 (1200) 26  | 12.86 (1200) 8  | 12.85 (1225) 60 | 12.90 (1243) 30  | 12.91 (1285) 163 |            | 13.00 (1290) 176 |
| AUG 04   | 13.30 (1144) 35 | 13.19 (1151) 32 | 13.19 (1165) 21 | 13.22 (1185) 23  | 13.23 (1184) 1  | 13.23 (1216) 36 | 13.27 (1210) 40  | 13.27 (1262) 237 |            | 13.35 (1283) 185 |
| SEP 04   | 13.84 (1234) 44 | 13.69 (1237) 42 | 13.66 (1252) 26 | 13.70 (1260) 12  | 13.67 (1260) 3  | 13.67 (1281) 24 | 13.70 (1284) 40  | 13.70 (1350) 215 |            | 13.75 (1353) 218 |
| OCT 04   | 13.00 (960) 26  | 12.90 (968) 31  | 12.89 (980) 19  | 12.95 (986) 15   | 12.92 (994) 11  | 12.95 (1015) 26 | 12.95 (1015) 43  | 12.96 (1046) 124 |            | 13.04 (1079) 139 |
| NOV 04   | 12.20 (753) 7   | 12.12 (774) 31  | 12.15 (784) 17  | 12.19 (790) 22   | 12.18 (790) 4   | 12.19 (817) 47  | 12.26 (825) 19   | 12.27 (829) 107  |            | 12.31 (834) 99   |
| DEC 04   | 11.78 (641) 3   | 11.70 (667) 29  | 11.68 (675) 15  | 11.70 (683) 11   | 11.70 (683) 2   | 11.70 (692) 16  | 11.78 (694) 8    | 11.78 (707) 37   |            | 11.82 (729) 109  |
| JAN 05   | 11.50 (23) 21   | 11.50 (23) 0    | 11.50 (23) 0    | 11.50 (23) 0     | 11.50 (23) 0    | 11.50 (23) 0    | 11.50 (23) 0     | 11.60 (23) 0     |            | 11.60 (27) 4     |
| FEB 05   | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0     | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0     | 11.60 (21) 0     |            | 11.60 (21) 2     |
| MAR 05   | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0     | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0     | 11.60 (21) 0     |            | 11.60 (21) 6     |
| APR 05   | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0     | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0     | 11.60 (21) 0     |            | 11.60 (21) 6     |
| MAY 05   | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0     | 11.60 (21) 0    | 11.60 (21) 0    | 11.60 (21) 0     | 11.60 (21) 0     |            | 11.60 (21) 4     |
| <b>CME - (CLASS IV) MILK FUTURES - Dollars per cwt.</b>  |                 |                 |                 |                  |                 |                 |                  |                  |            |                  |
| JAN 04   | 10.90 (5) 0     | 10.90 (5) 0     | 10.90 (5) 0     | 10.90 (5) 0      | 11.00 (5) 0     | 11.00 (5) 0     | 11.00 (5) 0      | 11.00 (5) 0      | NO TRADING | 11.00 (5) 0      |
| FEB 04   | 11.01 (5) 0     | 11.01 (5) 0     | 11.01 (5) 0     | 11.01 (5) 0      | 11.05 (5) 0     | 11.05 (5) 0     | 11.05 (5) 0      | 11.05 (5) 0      |            | 11.05 (5) 0      |
| <b>CME - BUTTER FUTURES -- Cents per pound</b>           |                 |                 |                 |                  |                 |                 |                  |                  |            |                  |
| MAR 04   | 142.00 (186) 3  | 143.00 (186) 0  | 143.00 (187) 2  | 145.00 (187) 0   | 145.00 (193) 12 | 146.00 (199) 7  | 146.00 (201) 4   | 146.00 (203) 4   | NO TRADING | 147.00 (206) 6   |
| MAY 04   | 145.00 (109) 0  | 145.00 (108) 5  | 146.00 (108) 1  | 146.00 (108) 0   | 146.00 (111) 8  | 148.00 (113) 5  | 149.00 (116) 3   | 149.00 (120) 4   |            | 150.50 (124) 5   |
| JUL 04   | 147.00 (131) 1  | 148.00 (130) 4  | 148.00 (130) 1  | 149.00 (133) 3   | 149.00 (135) 7  | 151.00 (137) 9  | 152.00 (136) 1   | 152.00 (137) 4   |            | 152.50 (138) 1   |
| SEP 04   | 149.00 (9) 0    | 149.00 (9) 0    | 149.00 (11) 2   | 152.00 (11) 0    | 152.00 (11) 0   | 153.50 (11) 1   | 155.00 (11) 1    | 155.00 (13) 3    |            | 155.00 (15) 2    |
| OCT 04   | 149.00 (15) 0   | 149.00 (15) 0   | 149.00 (15) 0   | 150.00 (15) 0    | 152.50 (15) 0   | 152.50 (15) 0   | 153.50 (14) 1    | 155.00 (14) 0    |            | 155.00 (14) 0    |
| DEC 04   | 152.00 (12) 0   | 152.00 (13) 2   | 154.00 (13) 0   | 154.00 (13) 0    | 155.00 (13) 0   | 155.00 (13) 0   | 155.00 (13) 0    | 155.00 (13) 0    |            | 155.00 (15) 2    |

<sup>1/</sup> At the CME open interest for milk -- 200,000 pounds per contract. For more detailed information, you may call our automated voice system at 608-224-5088.

## INTERNATIONAL DAIRY MARKET NEWS

Information gathered January 12 - 23, 2004

Prices are U.S. \$/MT, F.O.B. port. Information gathered for this report is from trades, offers to sell, and secondary data. This bi-weekly report may not always contain the same products and/or regions. Future reports may be included or withdrawn depending on availability of information. MT = metric ton = 2,204.6 pounds.

## WESTERN ANDEASTERN EUROPE

**OVERVIEW: WESTERNEUROPE:** The major topic of discussion in Europe is the recent export subsidy adjustment announced last week. The EU Management Committee adjusted the export subsidies for skim milk powder from 570 Euros to 645 and for whole milk powder, 980 to 1035 Euros. The major factor contributing to these adjustments is currency issues. In recent weeks, the Euro has strengthened considerably against the U.S. dollar. There are varying opinions about these adjustments occurring at this time. Producers are supportive of the adjustments with many traders indicating that this adjustment is having little impact on current situations and would have been of more benefit if it had occurred last fall. In recent days, the Euro peaked over 129 against the U.S. dollar, but also dipped below 124. Due to Euro/U.S. dollar volatility, more traders are negotiating sales in Euros and letting the dollar fluctuate. By mid week, the Euro strengthened and was above 125. Milk production in Europe continues to increase slowly. As the milk production season builds, some countries such as Germany and the U.K. are closely monitoring their production volumes as the milk quota year end nears. Winter weather conditions are mixed with some regions receiving typical winter temperatures and conditions, while others are milder. Handlers and traders have mixed opinions on current supplies. Some indicate that there is product available, but also state that near term or immediate shipment needs are difficult to source. European traders and handlers acknowledge that international supplies are limited and are hopeful that the upcoming production season will be favorable for European sourced dairy products.

**BUTTER/BUTTEROIL:** European butter markets are generally steady, although prices are lower on the top end of the reported ranges. Stocks of butter are reported to be available for buyer interest. Some butter continues to clear to Russia, but outside of this demand, most sales activity is centered around internal or domestic needs. Most current sales activity is being filled from inventoried stocks, although milk production is starting to gain momentum, thus is churning activity.

82% BUTTERFAT: 1,550 - 1,650  
99% BUTTERFAT: 1,700 - 1,900

**SKIM MILK POWDER (SMP):** European skim milk powder markets are unsettled with prices generally lower. Late last week, the EU Management Committee increased the export subsidy for skim milk powder from 570 to 645 Euros. Traders and handlers feel that the major reason for this adjustment was due to the currency considerations. The Euro has been firm against the U.S. dollar and last week topped 129, but also dipped to under 124 during the same week. Many traders are not pleased that this adjustment occurred at this time and would have been more in favor of an adjustment last fall. New sales remain quiet, thus the adjustment is having little impact on sales negotiations.

1.25% BUTTERFAT: 1,750 - 1,800

**WHOLE MILK POWDER (WMP):** Whole milk powder markets are generally steady with prices unchanged to slightly lower on the top of the reported range. The EU Management Committee increased the export subsidy from 980 to 1035 Euros late last week. This was quite surprising to many traders that this adjustment occurred at this time. Most feel that the firm Euro against the U.S. dollar was the major reason for the recent adjustment versus an adjustment last fall. Sales activity remains low, but Europeans are hopeful that the limited international supply will encourage buyers to look to Europe for their needs during coming months.

26% BUTTERFAT: 1,900 - 1,975

**SWEET WHEY POWDER:** European whey markets are steady to weak. Cheese production is active as milk, when possible, is being directed toward cheese output, thus whey stocks are readily available. Buyer interest is basically centered around a domestic or internal market. International buyer interest continues, but basically is filled from other regions of the world.

NONHYGROSCOPIC: 525 - 600

**OVERVIEW: EASTERN EUROPE:** Milk production in Eastern Europe is slowly gaining momentum from low levels. Stocks of manufactured dairy products are reported to be low, thus most manufacturers are looking forward to the upcoming milk production season with optimism. Traders and handlers are hopeful that the limited world supply situation will allow for more sales

## OCEANIA

**OCEANIA OVERVIEW:** Milk production in Oceania continues to edge lower in both Australia and New Zealand. In New Zealand, milk output continues to run about 3% ahead of last year at this time. Production is trending gradually lower on both islands. On the North Island, rainfall has been reported in recent days and is contributing to favorable pasture growth as the season winds down. On the South Island, moisture is not as plentiful and conditions are often dryer than many producers desire at this time of the season. In Australia, temperatures moderated from the high levels of a few weeks ago, but now are heating back up. Some milk handlers indicate that they do not have a good feel as to the impact these hot temperatures might have had on production, but do indicate that total receipts continue to lag last season by 6 - 7%. Stocks of manufactured dairy products in Oceania remain in close balance and are often reported as tight. Handlers do indicate that they are meeting most contractual commitments, but have very little, if any at all, inventory available for spot or new buyer interest. In many instances production schedules are keeping pace with delivery schedules, thus most products are experiencing little warehouse time. At this point in the milk production season, the product mix in Oceania is often centering around milk powder and cheese. Oceania traders and handlers are curious as to the impact the recent export subsidy increase in Europe will have on overall market conditions and prices. In recent weeks, Oceania prices have firmed slightly.

**BUTTER:** Oceania butter markets are steady to firm with prices unchanged to slightly higher. Stocks of butter are in close balance for commitments with basically no butter available for spot buyer interest at this time. The milk production season is on the down side, thus many butter producers are experiencing light churning schedules.

82% BUTTERFAT: 1,450 - 1,650

**CHEDDAR CHEESE:** Cheese markets and prices are firm. Demand for Oceania cheese remains strong from regular and ongoing customers. Producers and handlers report that stocks are in close balance, although sufficient to maintain shipments. Milk production is declining seasonally and, when possible, milk is being directed toward cheese output.

39% MAXIMUM MOISTURE: 2,200 - 2,350

**SKIM MILK POWDER (SMP):** Oceania skim milk powder markets are steady to firm with prices unchanged to higher. Stocks of powder are reported to be in close balance and often referred to as tight. Handlers and traders indicate that stocks are basically sufficient to meet contractual needs with minimal volumes available for spot needs. Milk production in Oceania is on the decline, although when possible, milk is being directed toward milk powder production.

1.25% BUTTERFAT: 1,775 - 1,900

**WHOLE MILK POWDER (WMP):** Whole milk powder markets are firm as prices increase. Oceania stocks situation is reported to be in very close balance to tight. Handlers and traders indicate that they are meeting contractual commitments and have very little, if any at all, available for new or spot buyer interest at this time. It is still too early for most producers and handlers to project how the current season will end up supply wise. At this point, sales negotiations continue to center around regular and ongoing customer needs.

26% BUTTERFAT: 1,800 - 1,900

Exchange rates for selected foreign currencies: JANUARY 20, 2004

|                       |                          |
|-----------------------|--------------------------|
| .7748 Canadian Dollar | .0220 Indian Rupee       |
| .3457 Argentina Peso  | .6669 New Zealand Dollar |
| .0920 Mexican Peso    | .7686 Australian Dollar  |
| .2662 Polish Zloty    | .0093 Japanese Yen       |
|                       | 1.2580 Euro              |

To compare the value of 1 US Dollar to Mexican Pesos: (1/.0920)= 10.8696. That is 1 US Dollar equals 10.8696 Mexican Pesos.

Source: "Wall Street Journal"

**EASTERN OVERVIEW CONTINUED:** activity to occur from this region of Europe. At this time, international buyer interest is slow, although Russia continues to look for butter and cheese for winter needs.

MONTHLY COLD STORAGE REPORT – TOTAL U.S. STOCKS

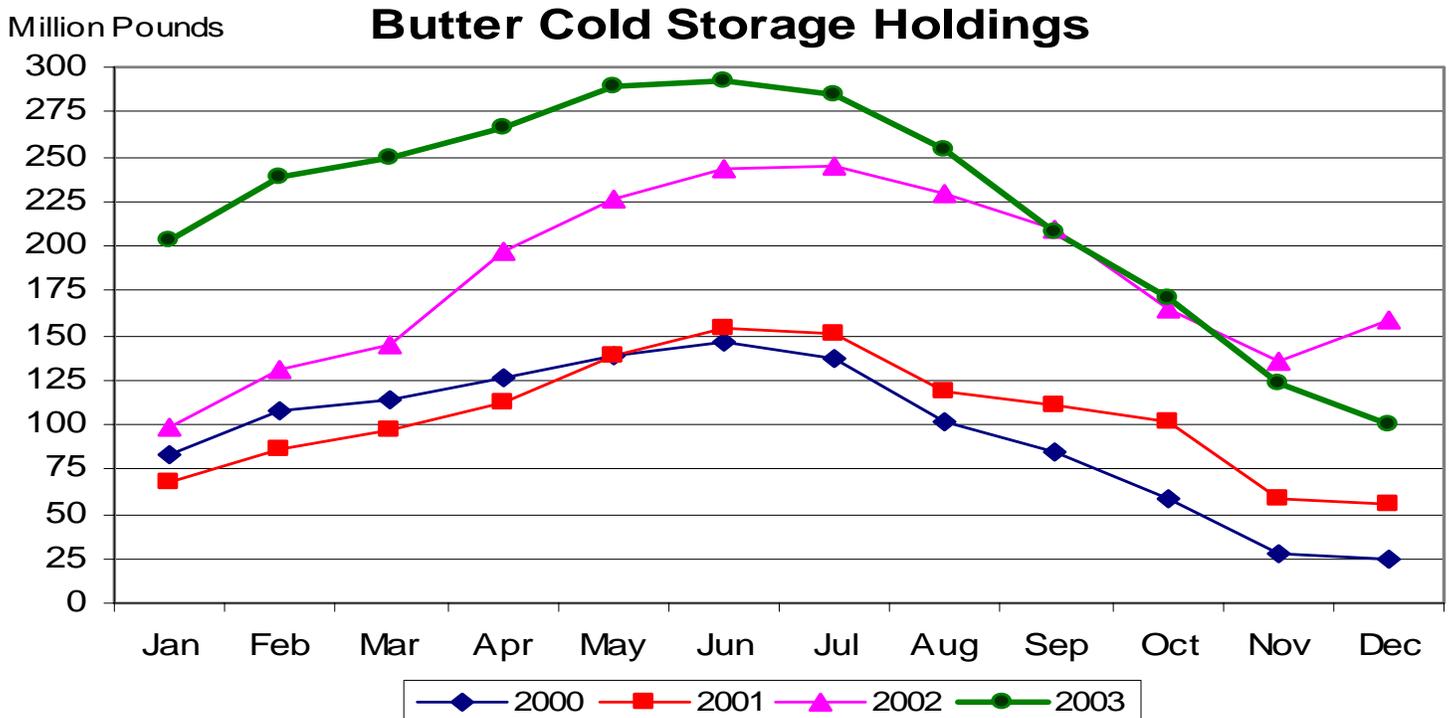
NOTE: Data for this report is collected from public, private and semiprivate warehouses, apple houses, and meat packing plants where food products are generally stored for 30 days or more. Commodities in space owned or leased and operated by the armed services are not reported. Food stocks held under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

All stocks in thousand pounds except where otherwise indicated

| U.S. HOLDINGS OF DAIRY PRODUCTS             |              |              |                     |              |              |              |
|---|--------------|--------------|---------------------|--------------|--------------|--------------|
| COMMODITY                                   | NOV 30, 2001 | NOV 30, 2002 | REVISED NOV 30 2003 | DEC 31, 2001 | DEC 31, 2002 | DEC 31, 2003 |
| Butter                                      | 57,916       | 135,632      | 122,544             | 55,915       | 157,820      | 99,570       |
| Cheese, Natural American                    | 438,140      | 474,055      | 467,226             | 449,105      | 493,262      | 492,310      |
| Cheese, Swiss                               | 11,335       | 22,251       | 24,083              | 12,051       | 21,784       | 27,158       |
| Cheese, Other Natural                       | 181,818      | 200,757      | 204,232             | 198,885      | 215,015      | 206,299      |
| U.S. GOVERNMENT OWNED COLD STORAGE HOLDINGS |              |              |                     |              |              |              |
| Butter                                      | 341          | 1,021        | 8,701               | 436          | 555          | 6,172        |
| Natural American Cheese                     | 207          | 463          | 6,918               | 817          | 197          | 9,614        |

| DECEMBER STORAGE HOLDINGS BY REGION |                         |         |         |          |         |        |                      |         |         |
|-------------------------------------|-------------------------|---------|---------|----------|---------|--------|----------------------|---------|---------|
| REGION                              | Natural American Cheese |         |         | Butter * |         |        | Other Natural Cheese |         |         |
|                                     | 2001                    | 2002    | 2003    | 2001     | 2002    | 2003   | 2001                 | 2002    | 2003    |
| New England                         | 19,803                  | 18,656  | 21,455  | ---      | ---     | ---    | 588                  | 364     | 364     |
| Middle Atlantic                     | 54,753                  | 58,212  | 48,148  | ---      | ---     | ---    | 35,123               | 30,144  | 14,549  |
| East North Central                  | 176,187                 | 201,936 | 188,957 | ---      | ---     | ---    | 94,424               | 114,798 | 119,547 |
| West North Central                  | 93,860                  | 112,218 | 115,685 | ---      | ---     | ---    | 57,070               | 56,819  | 52,413  |
| South Atlantic                      | 5,532                   | 392     | 457     | ---      | ---     | ---    | 176                  | 2,390   | 1,838   |
| East South Central                  | 0                       | 630     | 210     | ---      | ---     | ---    | 156                  | 260     | 2,162   |
| West South Central                  | 2,613                   | 1,686   | 1,502   | ---      | ---     | ---    | 223                  | 346     | 107     |
| Mountain                            | 9,155                   | 10,605  | 19,671  | ---      | ---     | ---    | 3,110                | 819     | 3,759   |
| Pacific                             | 87,202                  | 88,927  | 96,225  | ---      | ---     | ---    | 8,015                | 9,075   | 11,560  |
| TOTAL                               | 449,105                 | 493,262 | 492,310 | 55,915   | 157,820 | 99,570 | 198,885              | 215,015 | 206,299 |

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



COMMERCIAL AND GOVERNMENT STORAGE HOLDINGS, JANUARY 2002 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> |       |
|           | 2003            | 2002 | 2003       | 2002 | 2003       | 2002      | 2003                    | 2002 | 2003       | 2002 | 2003       | 2002      | 2003               | 2002  | 2003       | 2002 | 2003                 | 2002  |
|           | Million Pounds  |      |            |      |            |           | Million Pounds          |      |            |      |            |           | Million Pounds     |       |            |      |                      |       |
| January   | 203             | 99   | 202        | 99   | <u>3/</u>  | <u>3/</u> | 512                     | 460  | 512        | 459  | <u>3/</u>  | 1         | 1,147              | 900   | 112        | 120  | 1,036                | 780   |
| February  | 238             | 130  | 237        | 129  | 1          | 1         | 538                     | 491  | 538        | 490  | <u>3/</u>  | 1         | 1,187              | 966   | 116        | 142  | 1,071                | 823   |
| March     | 249             | 145  | 248        | 144  | 1          | 1         | 530                     | 498  | 528        | 498  | 2          | 1         | 1,247              | 1,028 | 137        | 158  | 1,111                | 871   |
| April     | 266             | 197  | 266        | 195  | 1          | 2         | 531                     | 514  | 528        | 513  | 3          | 1         | 1,308              | 1,093 | 154        | 161  | 1,154                | 933   |
| May       | 290             | 227  | 289        | 225  | 1          | 2         | 539                     | 536  | 536        | 535  | 3          | 1         | 1,336              | 1,146 | 159        | 166  | 1,177                | 981   |
| June      | 292             | 243  | 291        | 241  | 1          | 2         | 550                     | 549  | 546        | 548  | 4          | 1         | 1,365              | 1,235 | 152        | 174  | 1,212                | 1,062 |
| July      | 284             | 245  | 273        | 243  | 11         | 2         | 552                     | 573  | 546        | 573  | 6          | 1         | 1,308              | 1,254 | 90         | 138  | 1,219                | 1,116 |
| August    | 254             | 229  | 244        | 227  | 10         | 2         | 547                     | 565  | 538        | 565  | 9          | <u>3/</u> | 1,245              | 1,327 | 75         | 109  | 1,170                | 1,218 |
| September | 207             | 209  | 197        | 207  | 10         | 2         | 517                     | 513  | 508        | 512  | 9          | 1         | 1,207              | 1,308 | 69         | 85   | 1,138                | 1,223 |
| October   | 170             | 165  | 159        | 163  | 11         | 2         | 491                     | 501  | 482        | 500  | 9          | 1         | 1,128              | 1,279 | 69         | 79   | 1,059                | 1,200 |
| November  | 123             | 136  | 114        | 135  | 9          | 1         | 467                     | 474  | 460        | 474  | 7          | <u>3/</u> | 1,049              | 1,238 | 74         | 87   | 975                  | 1,151 |
| December  | 100             | 158  | 93         | 157  | 6          | 1         | 492                     | 493  | 483        | 493  | 10         | <u>3/</u> |                    | 1,148 |            | 101  |                      | 1,047 |

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               | Nov 30, 2001    | Nov 30, 2002 | Nov 30, 2003 | Dec 31, 2001 | Dec 31, 2002 | Dec 31, 2003 |
|-------------------------|-----------------|--------------|--------------|--------------|--------------|--------------|
|                         | Thousand Pounds |              |              |              |              |              |
| Butter                  | 57,575          | 134,611      | 113,843      | 55,479       | 157,265      | 93,398       |
| Natural American Cheese | 437,933         | 473,592      | 460,308      | 448,288      | 493,065      | 482,696      |

1/ Total holdings minus Government owned holdings. For more information, see page 9 of this report.

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

## DECEMBER MILK PRODUCTION

Milk production in the 20 major states during December totaled 12.3 billion pounds, down 0.3 percent from December 2002. November revised production, at 11.7 billion pounds, was down 0.1 percent from November 2002. The November revision represented an increase of 13 million pounds or 0.1 percent from last month's preliminary production estimate. Production per cow in the 20 major States averaged 1,589 pounds for December, 14 pounds above December 2002. The number of cows on farms in the 20 major states was 7.71 million head, 93,000 head less than December 2002, but unchanged from November 2003. The October-December quarterly production of milk for the U.S. was 41.3 billion pounds, 0.6 percent below the October-December quarter last year. The average number of milk cows in the U.S. during the October-December quarter was 9.01 million head, 141,000 head less than the same period last year.

| STATE                 | MILK COWS <sup>1/ 2/</sup> |       |                  |       | MILK PRODUCTION <sup>1/ 3/</sup> |                       |                  |                       |
|-----------------------|----------------------------|-------|------------------|-------|----------------------------------|-----------------------|------------------|-----------------------|
|                       | DECEMBER                   |       | OCTOBER-DECEMBER |       | DECEMBER                         |                       | OCTOBER-DECEMBER |                       |
|                       | 2002                       | 2003  | 2002             | 2003  | 2003                             | % CHANGE<br>FROM 2002 | 2003             | % CHANGE<br>FROM 2002 |
|                       | THOUSANDS                  |       |                  |       | MILLION LBS.                     | PERCENT               | MILLION LBS.     | PERCENT               |
| AL                    | --                         | --    | 19               | 18    | --                               | --                    | 60               | -4.8                  |
| AK                    | --                         | --    | 1.3              | 1.2   | --                               | --                    | 3.50             | -19.7                 |
| AZ                    | 150                        | 155   | 150              | 153   | 294                              | 2.1                   | 838              | 2.1                   |
| AR                    | --                         | --    | 31               | 28    | --                               | --                    | 80               | -8.0                  |
| CA                    | 1,676                      | 1,698 | 1,670            | 1,699 | 2,955                            | 0.8                   | 8,683            | 0.1                   |
| CO                    | --                         | --    | 99               | 99    | --                               | --                    | 540              | --                    |
| CT                    | --                         | --    | 23               | 21    | --                               | --                    | 98               | -8.4                  |
| DE                    | --                         | --    | 9.0              | 8.0   | --                               | --                    | 32.0             | -11.1                 |
| FL                    | 147                        | 140   | 147              | 140   | 185                              | -5.1                  | 504              | -4.5                  |
| GA                    | --                         | --    | 85               | 84    | --                               | --                    | 337              | -2.0                  |
| HI                    | --                         | --    | 6.6              | 6.5   | --                               | --                    | 20.6             | -9.3                  |
| ID                    | 390                        | 412   | 390              | 412   | 733                              | 5.6                   | 2,200            | 7.8                   |
| IL                    | 115                        | 108   | 115              | 108   | 168                              | -2.9                  | 485              | -3.0                  |
| IN                    | 146                        | 143   | 147              | 143   | 220                              | -0.5                  | 644              | 0.5                   |
| IA                    | 208                        | 196   | 208              | 197   | 306                              | -5.0                  | 901              | -3.7                  |
| KS                    | --                         | --    | 105              | 110   | --                               | --                    | 530              | 2.9                   |
| KY                    | 120                        | 112   | 120              | 112   | 122                              | -5.4                  | 353              | -5.6                  |
| LA                    | --                         | --    | 49               | 43    | --                               | --                    | 117              | -8.6                  |
| ME                    | --                         | --    | 36               | 34    | --                               | --                    | 151              | -3.8                  |
| MD                    | --                         | --    | 80               | 77    | --                               | --                    | 308              | -5.8                  |
| MA                    | --                         | --    | 20               | 18    | --                               | --                    | 77               | -11.5                 |
| MI                    | 301                        | 299   | 301              | 298   | 519                              | 3.0                   | 1,510            | 1.8                   |
| MN                    | 480                        | 465   | 480              | 465   | 698                              | -2.1                  | 2,000            | -2.1                  |
| MS                    | --                         | --    | 33               | 29    | --                               | --                    | 96               | -8.6                  |
| MO                    | 134                        | 124   | 135              | 125   | 155                              | -4.3                  | 455              | -2.4                  |
| MT                    | --                         | --    | 18               | 18    | --                               | --                    | 86               | 1.2                   |
| NE                    | --                         | --    | 66               | 62    | --                               | --                    | 270              | -6.9                  |
| NV                    | --                         | --    | 25               | 26    | --                               | --                    | 131              | 8.3                   |
| NH                    | --                         | --    | 17               | 16    | --                               | --                    | 73               | -7.6                  |
| NJ                    | --                         | --    | 13               | 12    | --                               | --                    | 50               | -12.3                 |
| NM                    | 308                        | 324   | 306              | 321   | 561                              | 6.5                   | 1,650            | 5.5                   |
| NY                    | 680                        | 657   | 678              | 660   | 976                              | -3.7                  | 2,875            | -3.3                  |
| NC                    | --                         | --    | 63               | 59    | --                               | --                    | 250              | -6.4                  |
| ND                    | --                         | --    | 38               | 34    | --                               | --                    | 131              | -6.4                  |
| OH                    | 260                        | 258   | 261              | 258   | 372                              | 1.9                   | 1,092            | 0.6                   |
| OK                    | --                         | --    | 88               | 81    | --                               | --                    | 301              | -4.7                  |
| OR                    | --                         | --    | 117              | 118   | --                               | --                    | 527              | -0.4                  |
| PA                    | 590                        | 560   | 591              | 561   | 832                              | -6.9                  | 2,445            | -7.4                  |
| RI                    | --                         | --    | 1.4              | 1.3   | --                               | --                    | 5.1              | -5.6                  |
| SC                    | --                         | --    | 20               | 18    | --                               | --                    | 72               | -13.3                 |
| SD                    | --                         | --    | 95               | 87    | --                               | --                    | 347              | 3.3                   |
| TN                    | --                         | --    | 84               | 77    | --                               | --                    | 285              | -6.6                  |
| TX                    | 311                        | 317   | 310              | 315   | 499                              | 9.4                   | 1,403            | 8.6                   |
| UT                    | --                         | --    | 92               | 90    | --                               | --                    | 398              | -2.7                  |
| VT                    | 153                        | 146   | 153              | 146   | 219                              | -2.7                  | 639              | -2.3                  |
| VA                    | 119                        | 106   | 119              | 108   | 140                              | -9.1                  | 412              | -8.6                  |
| WA                    | 247                        | 241   | 247              | 243   | 458                              | -1.9                  | 1,359            | -1.1                  |
| WV                    | --                         | --    | 15               | 14    | --                               | --                    | 52               | -8.8                  |
| WI                    | 1,266                      | 1,247 | 1,267            | 1,249 | 1,839                            | -0.9                  | 5,431            | 0.6                   |
| WY                    | --                         | --    | 4.1              | 3.9   | --                               | --                    | 14.4             | 0.7                   |
| 20 STATE<br>TOTAL     | 7,801                      | 7,708 | --               | --    | 12,251                           | -0.3                  | --               | --                    |
| U.S. <sup>5/ 6/</sup> | --                         | --    | 9,148            | 9,007 | --                               | --                    | 41,322           | -0.6                  |

<sup>1/</sup> Preliminary. <sup>2/</sup> Includes dry cows, excludes heifers not yet fresh. <sup>3/</sup> Excludes milk sucked by calves. <sup>5/</sup> Includes states for which individual monthly estimates are not available. <sup>6/</sup> Milk cows will not add due to rounding. SOURCE: "Milk Production," Da 1-1 (1-04), Agricultural Statistics Board, National Agricultural Statistics Service, USDA.

## THE DAIRY OUTLOOK

### Dairy Markets Muddled

Dairy markets have been a bit confused in recent weeks as traders attempted to sort out the effects of continued declines in supplies of milk for manufacturing, a pickup in dairy product demand, declining commercial stocks, and possible changes in cull cow prices and cheeseburger demand due to the discovery of a BSE case in the United States. Additional uncertainty was generated by the relatively sharp transition from market strength late in the holiday season to the ensuing seasonal weakness, a pattern not seen in a number of years. The basic supply-demand balance appears to have tightened in recent months, largely because of better demand than anticipated. Even so, recent price strength probably heralds postponed seasonal declines rather than a major change in price prospects.

Chicago Mercantile Exchange prices for block Cheddar cheese fell 6 cents per pound (4 cents for barrels) by Christmas but have been fractionally higher since then. Butter prices showed more dramatic swings, rising through mid-December, dropping more than 20 cents per pound by Christmas, and then regaining more than half the earlier drop in early January.

Recent economic improvements apparently are helping dairy product demand. Restaurant sales strengthened as 2003 drew to a close, increasing use of butter and cheese, although restaurant demand remained considerably less favorable than before the late 2001-2002 collapse. In addition, retail butter sales reportedly were fairly brisk even though specials were somewhat limited. Moderate recovery in dairy demand likely will be sustained in 2004.

Milk used in manufactured dairy products was below a year earlier during most of 2003 and declines continued through at least November. Although butter bore the brunt of the reduced supplies, output of most cheeses also was below a year earlier in November. Although manufacturing supplies rose seasonally after Christmas, dairy product output probably stayed below a year earlier in December. Significant increases from a year earlier in milk for manufacturing are not expected during the first half of 2004.

Reactions by consumers, foreign beef buyers, and regulatory agencies to the discovery of a BSE-infected cow in Washington might influence both milk production and use of some dairy products in a number of subtle ways. However, the effects of the BSE case on the dairy industry are projected to be relatively minor, and some may be offsetting.

Late December-early January prices served the key function of allocating still-limited supplies of butter and cheese between those users whose pipeline stocks were greatly depleted and those who can wait several weeks to rebuild. Once pipelines are back to workable levels, butter and cheese prices probably will weaken seasonally. However, both butter and cheese prices are projected to run significantly higher than during the first half of 2003.

### DAIRY FORECASTS (Calendar year basis)

|                                      | 2003  |        | 2004  |       |       |       |        |
|--------------------------------------|-------|--------|-------|-------|-------|-------|--------|
|                                      | IV    | ANNUAL | I     | II    | III   | IV    | ANNUAL |
| Milk cows (thous.)                   | 9,010 | 9,085  | 8,970 | 8,945 | 8,920 | 8,890 | 8,935  |
| Milk per cow (pounds)                | 4,595 | 18,680 | 4,820 | 4,930 | 4,695 | 4,725 | 19,185 |
| <b>Milk production (bil. pounds)</b> | 41.4  | 169.8  | 43.2  | 44.1  | 41.9  | 42.0  | 171.2  |
| <b>Commercial use (bil. pounds)</b>  |       |        |       |       |       |       |        |
| milkfat basis                        | 44.8  | 173.7  | 42.4  | 44.1  | 45.3  | 45.0  | 176.8  |
| skim solids basis                    | 41.9  | 165.1  | 41.1  | 42.3  | 43.3  | 43.1  | 169.8  |
| <b>Net removals (bil. Pounds)</b>    |       |        |       |       |       |       |        |
| milkfat basis                        | 0.0   | 1.2    | 0.0   | 0.0   | 0.1   | 0.1   | 0.3    |
| skim solids basis                    | 0.9   | 8.7    | 2.0   | 2.1   | 1.2   | 0.4   | 5.7    |

**Source:** "Livestock, Dairy, and Poultry Outlook," LDP-M-115, January 16, 2004, Economic Research Service, USDA, Washington, DC. For more information, contact James J. Miller, (202) 694-5184.

## FEDERAL MILK ORDER PRICE AND POOL SUMMARY, DECEMBER

**HIGHLIGHTS.** Handler reports of receipts and utilization under the Federal milk order system for December have been filed and tabulated. Combined totals for the 11 consolidated orders are being released. During December, about 10.4 billion pounds of milk were received from producers. This volume of milk is 0.8 percent lower than the December 2002 volume. (Taking into account the volume of milk not pooled due to intraorder disadvantageous price relationships, the year-to-year change is -3.7 percent.) About 4.0 billion pounds of producer milk were used in Class I products, 1.3 percent higher than the previous year. Calendar composition likely had a positive impact on milk used in Class I in 2003 as compared to 2002. The all-market average Class utilization percentages were; Class I = 38%, Class II = 10%, Class III = 41%, and Class IV = 11%. The weighted average statistical uniform price was \$13.57 per cwt., \$0.80 lower than last month, and \$2.16 higher than last year.

| PRICE AND POOL STATISTICS FOR FEDERAL MILK ORDER MARKETING AREAS FOR THE MONTH OF DECEMBER 2003 |               |                           |                        |   |                        |         |   |           |          |                         |
|---|---------------|---------------------------|------------------------|---|------------------------|---------|---|-----------|----------|-------------------------|
| FEDERAL MILK ORDER MARKETING AREA <u>1/</u>   | ORDER NUMBER  | RECEIPTS OF PRODUCER MILK |                        | UTILIZATION OF PRODUCER MILK IN CLASS I |                        |         | UTILIZATION OF PRODUCER MILK IN OTHER CLASSES |           |          | UNIFORM PRICE <u>2/</u> |
|   |               | TOTAL                     | CHANGE FROM PREV. YEAR | TOTAL                                   | CHANGE FROM PREV. YEAR | PERCENT | CLASS II                                      | CLASS III | CLASS IV |                         |
|   |               | MIL. LBS.                 | PERCENT                | MIL. LBS.                               | PERCENT                |         | PERCENT                                       |           |          |                         |
| Northeast (Boston)  | 001           | 2,014.8                   | -3.7                   | 938.7                                   | 0.6                    | 47      | 16  | 28        | 9        | 14.39                   |
| Appalachian (Charlotte)   | 005           | 552.1                     | -1.1                   | 382.0                                   | 1.9                    | 69      | 10  | 8         | 13       | 15.48                   |
| Southeast (Atlanta)   | 007           | 620.3                     | 2.5                    | 401.1                                   | 2.0                    | 64      | 9   | 17        | 10       | 15.33                   |
| Florida (Tampa)   | 006           | 250.8                     | 2.5                    | 217.6                                   | 5.1                    | 87      | 7   | 3         | 3        | 17.16                   |
| Midwest (Cleveland)   | 033 <u>3/</u> | 1,455.7                   | 6.7                    | 561.5                                   | 2.0                    | 39      | 12  | 43        | 6        | 13.26                   |
| Upper Midwest (Chicago)   | 030 <u>3/</u> | 2,128.4                   | 16.6                   | 385.4                                   | 12.4                   | 18      | 5   | 69        | 8        | 12.41                   |
| Central (Kansas City)   | 032 <u>3/</u> | 1,240.1                   | -24.2                  | 376.7                                   | -9.1                   | 30      | 8   | 53        | 9        | 12.91                   |
| Southwest (Dallas)  | 126 <u>3/</u> | 820.2                     | 3.3                    | 341.9                                   | 1.8                    | 42      | 11  | 28        | 19       | 13.86                   |
| Arizona-Las Vegas (Phoenix)   | 131           | 259.8                     | 1.0                    | 85.6                                    | 2.3                    | 33      | 7   | 36        | 24       | 12.98                   |
| Western (Salt Lake City)  | 135 <u>3/</u> | 436.0                     | -2.7                   | 96.4                                    | -6.2                   | 22      | 5   | 65        | 8        | 12.65                   |
| Pacific Northwest (Seattle)   | 124 <u>3/</u> | 615.4                     | -5.9                   | 182.5                                   | 1.7                    | 30      | 6   | 33        | 31       | 12.47                   |
| <b>ALL MARKET AVERAGE OR TOTAL</b>  | <u>3/</u>     | 10,393.6                  | -0.8                   | 3,969.4                                 | 1.3                    | 38      | 10  | 41        | 11       | 13.57                   |

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/ 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 administratively confidential volume of milk that normally would have been associated with these markets. In December 2002, the estimated not-pooled volume of milk was 325 million pounds. After adjusting for these not-pooled volumes, the year-to-year percent change is -3.7.

**CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)**

|                        | FOR THE WEEK OF JANUARY 19 - 23, 2004 |                      |                    | CUMULATIVE TOTALS |                       | UNCOMMITTED INVENTORIES |                       |
|------------------------|---------------------------------------|----------------------|--------------------|-------------------|-----------------------|-------------------------|-----------------------|
|                        | TOTAL PURCHASES                       | CONTRACT ADJUSTMENTS | ADJUSTED PURCHASES | SINCE 10/01/03    | SAME PERIOD LAST YEAR | WEEK ENDING 01/09/04    | SAME PERIOD LAST YEAR |
| <b>BUTTER</b>          |                                       |                      |                    |                   |                       |                         |                       |
| Bulk                   | -0-                                   | -0-                  | -0-                | -0-               | 380,835               | -0-                     | -0-                   |
| Packaged               | -0-                                   | -0-                  | -0-                | -0-               | -0-                   | -0-                     | -0-                   |
| <b>TOTAL</b>           | -0-                                   | -0-                  | -0-                | -0-               | 380,835               | -0-                     | -0-                   |
| <b>CHEESE</b>          |                                       |                      |                    |                   |                       |                         |                       |
| Block                  | -0-                                   | -0-                  | -0-                | -0-               | 343,714               | -0-                     | -0-                   |
| Barrel                 | -0-                                   | -0-                  | -0-                | -0-               | 337,555               | -0-                     | -0-                   |
| Process                | -0-                                   | -0-                  | -0-                | -0-               | 5,781,600             | -0-                     | -0-                   |
| <b>TOTAL</b>           | -0-                                   | -0-                  | -0-                | -0-               | 6,462,869             | -0-                     | -0-                   |
| <b>NONFAT DRY MILK</b> |                                       |                      |                    |                   |                       |                         |                       |
| Nonfortified           | 12,916,013                            | -0-                  | 12,916,013         | 172,965,212       | 156,449,078           | 861,234,000*            | 983,377,000           |
| Fortified              | -0-                                   | -0-                  | -0-                | -119,048          | -0-                   | 46,391,000*             | 46,391,000            |
| <b>TOTAL</b>           | 12,916,013                            | -0-                  | 12,916,013         | 172,846,164       | 156,449,078           | 907,625,000*            | 1,029,768,000         |

\*DATA FOR 01/16 NOT AVAILABLE AT PRESSTIME

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

|                                    | MILKFAT* BASIS | SKIM** SOLIDS |                                    | MILKFAT* BASIS | SKIM** SOLIDS |
|------------------------------------|----------------|---------------|------------------------------------|----------------|---------------|
| WEEK OF JANUARY 19 - 23, 2004 =    | 2.8            | 150.3         | COMPARABLE PERIOD IN 2003 =        | 13.8           | 214.1         |
| CUMULATIVE SINCE OCTOBER 1, 2003 = | 38.0           | 2,011.9       | CUMULATIVE SAME PERIOD LAST YEAR = | 102.4          | 1,885.1       |
| CUMULATIVE JANUARY 1 - 23, 2004 =  | 12.5           | 662.7         | COMPARABLE CALENDAR YEAR 2003 =    | 28.3           | 619.5         |

\* 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 JANUARY 19 - 23, 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-     | 11,970,407      | -0-       |
| EAST    | -0-    | -0-      | -0-      | -0-    | -0-    | -0-     | 945,606         | -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-     | 5,781,600 | 2,606,034       | 3,093,118   | 1.5                 | 52.8    |
| WEST         | -0-     | 380,835 | -0-     | 681,269   | 166,732,925     | 153,007,771 | 96.5                | 47.1    |
| EAST         | -0-     | -0-     | -0-     | -0-       | 3,507,205       | 348,189     | 2.0                 | 0.1     |
| <b>TOTAL</b> | -0-     | 380,835 | -0-     | 6,462,869 | 172,846,164     | 156,449,078 | 100.0               | 100.0   |

**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 01/03/04 & 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          | 0.1        | 0.6 | 6.0 | 3.4  | 13.7 | 1.5  | 0.2  | 0.6 | 8.5  | 0.8 | 35.3             | 35.3             | 43.3 | 43.3 |
| 2003-Dairy          | 0.2        | 0.7 | 6.6 | 4.7  | 19.0 | 1.9  | 0.3  | 0.6 | 12.4 | 1.8 | 48.1             | 48.1             | 49.3 | 49.3 |
| 2004-All cows       | 0.1        | 0.7 | 7.9 | 9.0  | 24.2 | 11.7 | 12.5 | 2.6 | 9.0  | 3.9 | 81.6             | 81.6             |      |      |
| 2003-All cows       | 0.2        | 0.8 | 8.9 | 11.4 | 29.7 | 10.7 | 13.5 | 3.5 | 13.1 | 5.8 | 97.6             | 97.6             |      |      |

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   |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 2000 | 10.05 | 9.54  | 9.54  | 9.41  | 9.37  | 9.46  | 10.66 | 10.13 | 10.76 | 10.02 | 8.57  | 9.37  |
| 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  |

**FEDERAL MILK ORDER CLASS PRICES FOR 2003 - 2004 (3.5% BF)**

| CLASS | JAN   | FEB   | MAR   | APR   | MAY   | JUN   | JUL   | AUG   | SEP   | OCT   | NOV   | DEC   | JAN 2004 |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|----------|
| I 1/  | 10.56 | 10.23 | 9.81  | 9.64  | 9.71  | 9.74  | 9.77  | 10.97 | 13.71 | 14.27 | 14.37 | 13.84 | 11.85    |
| II    | 11.29 | 10.66 | 10.54 | 10.44 | 10.43 | 10.46 | 10.63 | 10.81 | 10.76 | 10.84 | 10.99 | 11.30 |          |
| III   | 9.78  | 9.66  | 9.11  | 9.41  | 9.71  | 9.75  | 11.78 | 13.80 | 14.30 | 14.39 | 13.47 | 11.87 |          |
| IV    | 10.07 | 9.81  | 9.79  | 9.73  | 9.74  | 9.76  | 9.95  | 10.14 | 10.05 | 10.16 | 10.30 | 10.52 |          |

1/ Specific order differentials to be added to this base price are located at [www.ams.usda.gov/dyfmoms/mib/cls\\_prod\\_cmp\\_pr.htm](http://www.ams.usda.gov/dyfmoms/mib/cls_prod_cmp_pr.htm)