



DAIRY AND GRAIN REPORT

April 3, 2009

Volume 13 • Number 14

vs Last Week	vs Last Year	Market	3-Apr	27-Mar	20-Mar	13-Mar	6-Mar	27-Feb
+0.7%	-26.2%	Barrel Cheddar (CME average; lb)	\$ 1.2840	\$ 1.2750	\$ 1.3345	\$1.2800	\$ 1.1960	\$ 1.2045
+1.4%	-28.9%	Block Cheddar (CME average; lb)	\$ 1.2860	\$ 1.2685	\$ 1.2775	\$1.2410	\$ 1.1770	\$ 1.2200
-0.5%	-13.6%	Butter (CME average; lb)	\$ 1.1800	\$ 1.1860	\$ 1.1835	\$1.1785	\$ 1.1590	\$ 1.1340
+0.0%	-35.3%	Nonfat Dry Milk (AMS Central AOM; lb)	\$ 0.8600	\$ 0.8600	\$ 0.8375	\$0.8325	\$ 0.8300	\$ 0.8300
+5.6%	-22.7%	Dry Whey (AMS Central AOM; lb)	\$ 0.1875	\$ 0.1775	\$ 0.1700	\$0.1663	\$ 0.1613	\$ 0.1600
+0.0%	-51.0%	WPC (AMS Central/West AOM; lb)	\$ 0.5475	\$ 0.5475	\$ 0.5475	\$0.5388	\$ 0.5388	\$ 0.5388
+3.4%	-39.8%	Dry Buttermilk (AMS West AOM; lb)	\$ 0.6875	\$ 0.6650	\$ 0.6550	\$0.6450	\$ 0.6450	\$ 0.6350
-2.3%	-33.9%	Class III Futures (CME 2nd nearby; cwt)	\$ 11.45	\$ 11.72	\$ 11.41	\$ 10.87	\$ 10.73	\$ 10.40
+4.2%	-10.2%	Cash Butter Futures (CME 2nd nearby; lb)	\$ 1.2500	\$ 1.2000	\$ 1.2000	\$1.2000	\$ 1.2000	\$ 1.2000
+7.9%	-21.2%	Dry Whey Futures (CME 2nd nearby; lb)	\$ 0.2050	\$ 0.1900	\$ 0.1900	\$0.1850	\$ 0.1775	\$ 0.1775
+3.3%	-35.3%	NDM Futures (CME 2nd nearby; lb)	\$ 0.8570	\$ 0.8300	\$ 0.8300	\$0.8300	\$ 0.8300	\$ 0.8300
+3.5%	-26.8%	Class IV Futures (CME 2nd nearby; cwt)	\$ 10.61	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.25	\$ 10.40
+4.5%	-32.4%	Corn (CBOT nearby; bu)	\$ 4.0450	\$ 3.8700	\$ 3.9650	\$3.7500	\$ 3.5275	\$ 3.5075
+8.6%	-22.0%	Soybeans (CBOT nearby; bu)	\$ 9.9550	\$ 9.1700	\$ 9.5200	\$8.8250	\$ 8.7900	\$ 8.7450
+11.1%	-42.2%	Wheat (CBOT nearby; bu)	\$ 5.6350	\$ 5.0725	\$ 5.5025	\$5.0650	\$ 5.1625	\$ 5.1050
+7.8%	-8.2%	Soymeal (CBOT nearby; ton)	\$ 306.00	\$ 283.80	\$ 300.50	\$286.00	\$ 274.20	\$ 275.80
+8.9%	-37.6%	Soyoil (CBOT nearby; lb)	\$ 0.3532	\$ 0.3242	\$ 0.3225	\$0.2980	\$ 0.3076	\$ 0.3085
+7.0%	+22.0%	Cocoa (ICE nearby; ton)	\$ 2,769	\$ 2,588	\$ 2,590	\$ 2,378	\$ 2,323	\$ 2,508
-0.8%	+8.5%	Sugar #11 (ICE nearby; lb)	\$ 0.1255	\$ 0.1265	\$ 0.1342	\$0.1289	\$ 0.1278	\$ 0.1347
-1.3%	-32.5%	Orange Juice (ICE nearby; lb)	\$ 0.7600	\$ 0.7700	\$ 0.7280	\$0.7430	\$ 0.7400	\$ 0.7070
+3.2%	-5.6%	Live Cattle (CME nearby; lb)	\$ 0.8418	\$ 0.8158	\$ 0.8285	\$0.8210	\$ 0.8245	\$ 0.8253
+4.7%	-59.2%	Natural Gas (NYMEX nearby; mmbtu)	\$ 3.801	\$ 3.631	\$ 4.227	\$ 3.932	\$ 3.945	\$ 4.198
+0.2%	-50.6%	Crude Oil (NYMEX nearby; bbl)	\$ 52.51	\$ 52.38	\$ 51.06	\$ 46.25	\$ 45.52	\$ 44.76
+0.3%	-45.9%	Unleaded Gas (NYMEX nearby; gal)	\$ 1.4924	\$ 1.4879	\$ 1.4570	\$1.3529	\$ 1.3322	\$ 1.2807
+0.9%	-51.7%	Heating Oil (NYMEX nearby, gal)	\$ 1.4460	\$ 1.4328	\$ 1.3834	\$1.1972	\$ 1.2294	\$ 1.2659
+3.1%	-36.4%	Dow Jones Industrials	8,018	7,776	7,278	7,224	6,627	7,063
+5.2%	-29.5%	NASDAQ 100	1,316	1,251	1,187	1,169	1,065	1,117
+3.3%	-38.5%	S&P 500 Index	843	816	769	757	684	735
+1.4%	-13.9%	Euro/Dollar	1.3488	1.3305	1.3552	1.2899	1.2661	1.2696

Cheese Prices Ease, Class III Milk Futures Come Under Serious Pressure

Prospective cheese buyers didn't seem all that eager to press the issue in the CME spot market this week, as they didn't plow ahead in the face of moderate sell-side interest. Block prices were down a penny, dropping to \$1.2800/lb. And, for the first time in a while, barrel prices slipped below block prices, closing the week at \$1.2600/lb, down \$0.0375/lb.

A total of 17 cars of blocks and 11 cars of barrels changed hands.

Absent support from the cheese market and, apparently, with a lot of the previous-week's short-covering frenzy complete, Class III milk futures came under serious strain during the week. And not even the announcement of another round of CWT herd retirements could stop the slide.

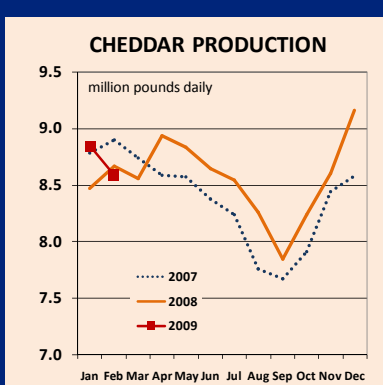
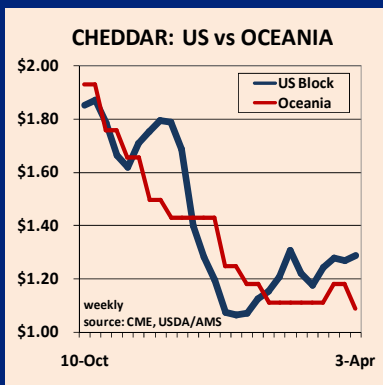
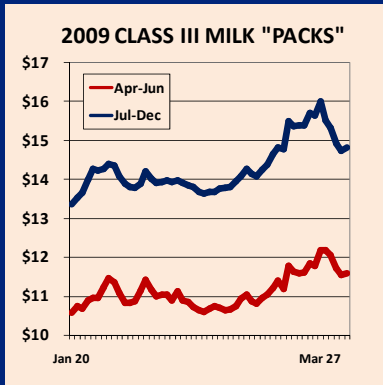
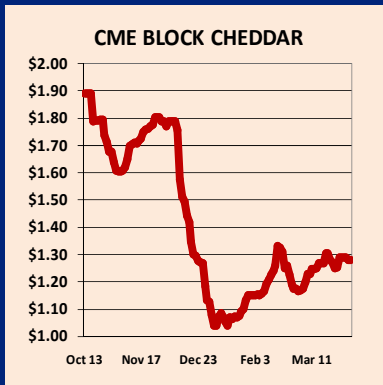
July through December 2009 contracts closed at \$14.81/cwt on Friday, down \$1.19/cwt on the week. April through February prices were down by about half as much – losing \$0.58/cwt to close at an average of \$11.59/cwt.

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Given the magnitude of those declines, the futures market dominated a lot of the talk around the complex. Speculators seemed to continue to trim positions early in the week but their efforts lacked the edginess that pushed the July-December average to \$16.00/cwt as of settlement last Friday. The latest CFTC Commitment of Traders report highlighted last week's speculative exodus. From March 24 to March 31 the "non commercial short" category was down by 546 contracts. Holdings dropped from to about 20.5% of the short side of the market, the lowest level since early February.

Farmer selling was also said to be active early in the week. Producers seemed interested in securing base prices that were as much as 60% higher than those in their last check.

On Wednesday, however, things firmed for a time when the CWT program announced that it would begin accepting bids for another round of herd retirements. Language in the press release, however, was deemed by some observers as lacking requisite enthusiasm. In particular, a quote attributed to CEO Jerry Kozak was interpreted as a signal that this round might not produce huge numbers: "As always, CWT staff will continue to use the program's funds wisely. Dairy farmers hoping to have their bids accepted should fully recognize the competitive nature of the bidding process and be realistic in determining the value of their cows when preparing their bids... Whether CWT will remove a significant number of dairy animals will depend on the number of bids received and the price level of those bids. CWT will not pay more for cows than what they are currently worth in the marketplace."

What was a 10-15 cent Class III rally quickly turned into another downside rout. And so it went until prices managed to firm some on Friday.

Ongoing slaughter activity remained on the low side of the recent norm for the week ending March 21.

USDA reported the dairy cow slaughter at 54,134 head, up 7.2% when compared to the same week a year ago.

Conversations with contacts about the cheese market itself did not suggest much material change in day-to-day conditions. Product was said to be available, but orders still seemed decent enough to keep things from becoming especially loose.

Persons familiar with retail scanner data say that activity in supermarkets (excluding Wal-Mart and club stores) showed some softness over the four weeks ending March 21, with volume down between 1.5 and 2.0%. The year-over-year comparisons are not especially valid, however, because Easter was on the early side a year ago. The 12-week trend was positive, with volume growth of just under 1.0%.

Cheddar output was down some in the month of February according to data published in the USDA/NASS Dairy Products report. Cheddar production was 240.4 million pounds, down 0.9% when taking last year's extra day into account. Total cheese production was 768.5 million pounds, up 1.4% on a leap-year adjusted basis. A simple calculation of presumptive total cheese demand – beginning stocks plus production less ending stocks – shows use down 3.2% in February 2009 versus February 2008 and down 2.7% year to date.

BUTTER SLOUCHES

With Easter business complete the butter market did not have any real catalyst to move higher this week. So lower proved to be the way: settlement Friday was \$1.1800/lb, down \$0.0075/lb on the week.

Trading volume was light, with six cars changing hands.

Contacts noted that cream seemed to be more available as the week went on. Churning activity should be heavy over the next six-to-eight weeks that typically remain in the inventory building season.

Stocks growth was only modest

last week, however, at least in CME warehouses. The Exchange reported stocks in licensed warehouses at 75.1 million pounds, up 0.5 million pounds from the previous report. That compares to an increase of 1.6 million pounds last year and 0.7 million pounds on average over the previous five years. The total on hand is down 27% versus the same week last year.

For once the publication of the USDA/NASS Dairy Products report did set of a search for “the last February production was this high...” measurement. Output was down, totaling 145.4 million pounds compared to 146.8 million pounds last February. But, of course, last February had 29 days... so 2009 production was indeed up 2.6% on a leap-year adjusted basis.

International prices were mixed, with already higher-than-US prices in Europe rising some and already lower-than-US prices out of Oceania dropping some. USDA/AMS Dairy Market News quoted a range of prices for the EU centered at about \$1.25/lb, up more than a dime over the last report. Meanwhile, prices out of Oceania dropped about \$0.02/lb to \$0.82/lb. With Australia and New Zealand at about \$0.36/lb below the US price, exports from America are but a distant hope.

Futures prices were down. April through December contracts closed at an average of \$1.3125/lb on Friday, off \$0.0086/lb on the week in the cash-settled market.

CONTINUED FIRING

Dry product markets continued to be generally – but quietly – firm this week, with prices gaining across most of the major metrics both at home and abroad.

Domestic nonfat dry milk prices were steady to a bit higher. The midpoint of USDA/AMS Dairy Market News mostly range for the West was \$0.8100/lb, up \$0.0012/lb on the week. Prices were steady in the Central states at \$0.8600/lb. NASS survey prices for the week ending March 28

averaged \$0.8152/lb, down \$0.0033/lb.

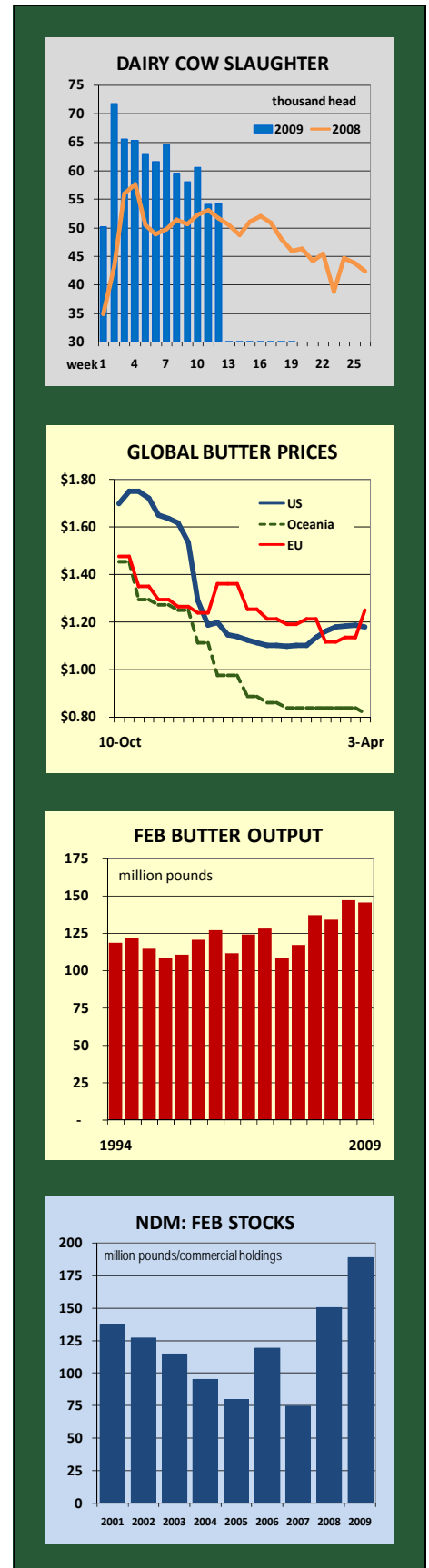
April through December 2009 futures were essentially unchanged, averaging \$0.9024/lb Friday.

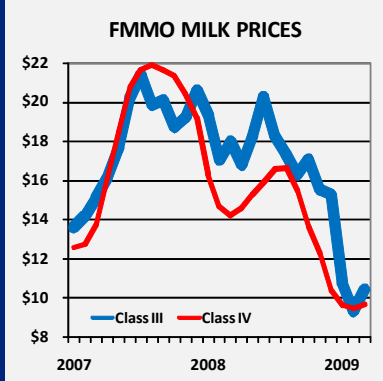
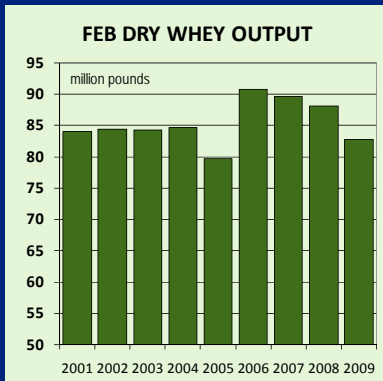
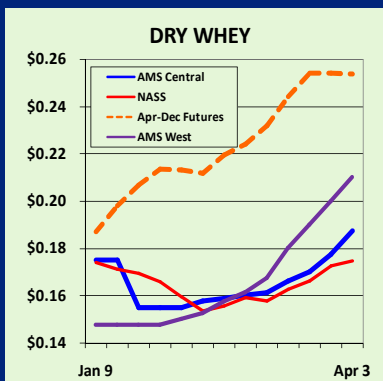
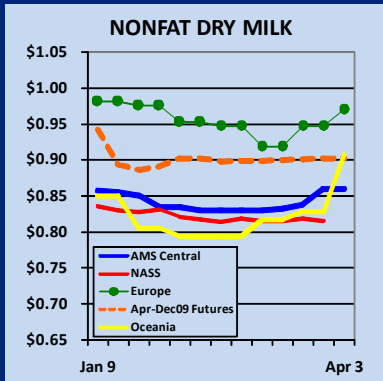
Things were a bit perkier in the global arena. Dairy Market News reported a range of prices for the EU centered near \$0.97/lb, up over \$0.0200/lb. The midpoint of the quoted range out of Oceania was about \$0.91/lb, up almost \$0.08/lb over the past two weeks. Anecdotal and printed reports suggest that the tone in global powder markets is being helped along by recent performance in the “Global Dairy Trade” whole milk powder auctions conducted out of New Zealand. The latest auction saw WMP commitments for June up only 0.9% versus the May results. But deferred pricing had some more heft, with prices for July-September commitments rising 4.8% to \$2,322/metric ton and prices for October-December commitments rising 4.6% to \$2,254/metric ton.

A sense that things are not quite as soft is also supported by continued reduction in sales of powder to the US government. This week manufacturers committed just under four million pounds to the program, the lightest tender since sales began in October.

Production may be tailing off some, or at least that was the case in February according to data published in the USDA/NASS Dairy Products report. Combined NDM/SMP output was 145.7 million pounds, down 0.8% from February 2008 on a leap-year adjusted basis. Production had not been down on a year-over-year basis since June 2007. Stocks remain heavy, though, with the report citing manufacturers’ holdings at 188.8 million pounds, up 26% versus February 2008. When combined with government stocks, the total on hand approaches 375 million pounds – though much of the CCC inventory has now been committed to other purposes (as reported last week).

Dry whey manufacturing activity had been down for a time and Febru-





ary was no exception. Output was estimated 82.7 million pounds, down 2.7% on a leap year adjusted basis. Stocks were down, too: the 54.2 million pounds reported (human) represents a 4.2% decrease when compared to February 2008.

Against that backdrop, spot market prices continue to move higher. Dairy Market News mostly ranges shifted a penny higher, moving the midpoints to \$0.1875/lb in the Central States and \$0.2100/lb in the West.

NASS survey prices for the week ending March 28 were up \$0.0021/lb at \$0.1745/lb.

Multiple contacts say that while product movement has been okay, some resistance may be developing to prevailing prices/basis levels. Perhaps that is why the futures market has stalled. April through December contracts settled at an average of \$0.2536/lb on Friday, down \$0.0006/lb on the week.

Prices in Europe were up some, with the midpoint of the quoted range at about \$0.24/lb, up about a quarter-cent over the last two weeks.

MARCH MILK: PRICES UP

Modest bumps in cheese and butter prices in late February and the first weeks of March will push base milk prices higher in the Federal Order System and in California.

The Class III price was announced at \$10.44/cwt, up \$1.13/cwt (+12%) versus February but still down \$7.42/cwt (-42%) when compared to March 2008. The Class IV price goes to \$9.64/cwt, up \$0.19/cwt (+2%) for the month but down \$4.53/cwt (-32%) for the year.

In California, the Class 4b price will be \$10.45/cwt, up \$0.34 on the month, while the Class 4a price moves \$0.27/cwt higher to \$9.67/cwt.

For FMMO producers paid on a multiple component basis protein will be valued at \$2.1973/lb and butterfat at \$1.1594/lb. Other solids will continue to be a deduction at -\$0.0339/lb.

Looking at futures market perform-

ance, the March 2009 Class III milk contract covered a lot real estate. The life of contract high was \$20.49/cwt with a low of \$9.55/cwt. Daily settlements averaged \$13.66/cwt on a volume-weighted basis. A total of 22,122 contracts changed hands.

Among the NASS cash settled futures contracts, butter will go off the board at \$1.1289/lb, nonfat dry milk at \$0.8166/lb and dry whey at \$0.1662/lb.

Cheese prices today remain close to the \$1.2611/lb NASS average for the March calculation period. Accordingly, another price increase may be in the cards for April. April prices will be determined using NASS survey data collected for the weeks ending April 4, 11, 18 and 25 with announcement slated for Friday, May 1.

ENDQUOTE

“China’s emergence as America’s financier has steadily increased its leverage over the United States. But in the short run—rather, for however long the current crisis lasts—the two countries really are codependent in a way neither fully anticipated. Early this year, Chinese officials began saying more and more bluntly... that if America wants to keep using China’s money, it had better put its economy back on track. It should be saving and investing more, borrowing and consuming less... Okay already! But the more Americans obey these orders, the worse things look for China in the short run, since American overconsumption is exactly what has kept those Chinese factories a-hum. Americans are in a similar bind with their complaints about China. U.S. officials want China to reduce its trade surplus—while also hoping that China’s financiers will keep buying U.S. Treasury notes and stocks in U.S. companies with the dollars they get from that very trade surplus. We can’t have it both ways. The Chinese can give us money, or they can give us back some jobs, but not both.”

-- James Fallows
“China’s Way Forward”
 The Atlantic April 2009

Prospective Plantings Report Short on Acres

The USDA released the *Prospective Plantings* report on March 31, prompting numerous questions — such as, where did the acreage go?

The range of guesses on corn was rather wide, spanning from 81.4 million to 89.0 million. Last year planted corn acreage was 85,982 million. The average guess was 84,548 and the USDA projected 84,986 million. Considering the wide range, this number seemed pretty spot-on. This projection was probably considered rather neutral.

The soybean estimate range was from 75.900 million to 81.500 million. The USDA projection was down 3.227 million acres from the guess. Last year 75.718 million acres were planted. This number was deemed bullish from the get-go as many in the trade have been expecting a large soybean acreage this year. This number did not inspire confidence in soybean acreage coming anywhere near the widely expected 80 million mark. This number was bullish according to what the trade was thinking.

Wheat acreage was put at 58.638 million acres (total wheat crop) and the average trade guess was at 58.856 versus the 63,147 planted last year. The range of guesses was from 56.700 to 63,000 million. The projection was considered neutral.

Questions immediately arose sur-

rounding the total number of acres being down from last year. The total acreage planted last year was 355 million for all crops. This year the USDA projects 344 million. Of that difference, 5.8 million is in row crops. Did we just suddenly lose acres? No. When prices were higher, fringe acreage was put into production. With higher fertilizer prices and lower grain prices, it appears some of that ground will be fallowed. The USDA seemed to take this into consideration. Could these acreage numbers change between now and the June 31 plantings report? Yes and they likely will.

Weather is going to play a major role. North of Interstate 70, there has not been much done in the way of planting preparations. It is wet and likely to get wetter over the next 7-10 days as a steady progression of storms moves through.

Fertilizer application was down last fall from the usual. This will make it easy for farmers to return seed corn and plant soybeans. If the acreage projected in this report comes to fruition, and the growing season is good, ending stocks numbers would appear to be adequate barring any major changes to the balance sheet with demand. Any major deviation from the acreage could have a profound impact on the balance sheets, however.

CBOT CORN FUTURES

CBOT SOYBEAN OIL

EASTER HOLIDAY SCHEDULE

As is customary, the Dairy and Grain Report will not be published next week due to the Easter holiday. Publication will resume with the April 17 edition.

CME CASH CHEESE AND BUTTER MARKETS						
BLOCK CHEDDAR	30-Mar	31-Mar	1-Apr	2-Apr	3-Apr	Total
High Trade	\$1.3000	\$1.2950	\$1.2925	\$1.2800	\$1.2825	\$ -
Low Trade	\$1.2900	\$1.2900	\$1.2925	\$1.2800	\$1.2800	\$ -
Settle	\$1.2900	\$1.2900	\$1.2900	\$1.2800	\$1.2800	\$1.2860
Volume	6	3	1	2	5	17
Unfilled Bids	1	-	-	-	-	1
Uncovered Offers	1	1	1	-	-	3
BARREL CHEDDAR	30-Mar	31-Mar	1-Apr	2-Apr	3-Apr	Total
High Trade	\$ -	\$ -	\$ -	\$1.2800	\$1.2800	\$ -
Low Trade	\$ -	\$ -	\$ -	\$1.2750	\$1.2600	\$ -
Settle	\$1.2975	\$1.2975	\$1.2900	\$1.2750	\$1.2600	\$1.2840
Volume	-	-	-	3	8	11
Unfilled Bids	-	-	-	1	2	3
Uncovered Offers	-	-	1	1	-	2
GRADE AA BUTTER	30-Mar	31-Mar	1-Apr	2-Apr	3-Apr	Total
High Trade	\$1.1875	\$1.1800	\$ -	\$ -	\$ -	\$ -
Low Trade	\$1.1800	\$1.1800	\$ -	\$ -	\$ -	\$ -
Settle	\$1.1800	\$1.1800	\$1.1800	\$1.1800	\$1.1800	\$1.1800
Volume	4	2	-	-	-	6
Unfilled Bids	-	-	-	1	-	1
Uncovered Offers	-	-	-	-	-	-

PRICE AND VOLUME DATA				
vs Last Week	vs Last Year	Week Ending	28-Mar	21-Mar
+1.3%	-32.6%	NASS Block Cheddar (lb)	\$1.2379	\$1.2219
+3.2%	-27.2%	NASS Barrel Cheddar (lb)	\$1.3173	\$1.2768
+0.7%	-11.8%	USDA/NASS Butter (lb)	\$1.1695	\$1.1610
-0.4%	-34.4%	USDA/NASS NDM (lb)	\$0.8152	\$0.8185
+1.2%	-28.9%	USDA/NASS Dry Whey (lb)	\$0.1745	\$0.1724
-2.6%	+13.8%	NASS Block Cheese Sales (mil lbs)	11.7	12.0
-12.7%	+0.1%	NASS Barrel Cheese Sales (mil lbs)	9.5	10.9
+0.6%	-36.9%	CME Butter Stocks (mil lbs)	75.1	74.6
vs Last Week	vs Last Year	Week Ending	3-Apr	27-Mar
+6.5%	+3.2%	Class III Futures Volume	5,360	5,034
-0.6%	+9.3%	Class III Futures Open Interest	34,017	34,220
	+100%	Delivery Butter Futures Volume	6	-
+500.0%	-86.4%	Delivery Butter Futures Open Interest	6	1
+62.6%	+40.1%	Cash Butter Futures Volume	426	262
+4.1%	+45.7%	Cash Butter Futures Open Interest	4,848	4,658
+252.6%	+86.1%	Dry Whey Futures Volume	67	19
+2.2%	-7.7%	Dry Whey Futures Open Interest	1,552	1,518



WORLD MARKET MATRIX									
SKIM MILK POWDER NONFAT DRY MILK	Quoted USA ¹	vs Last Year	vs Mar 20	Quoted EUROPE ²	vs Last Year	vs Mar 20	Quoted OCEANIA ²	vs Last Year	vs Mar 20
in US Dollars	\$ 1,896	-35%	3%	\$ 2,138	-39%	2%	\$ 2,000	-44%	10%
in Euros	€ 1,406	-25%	0%	€ 1,585	-29%	3%	€ 1,483	-35%	10%
in New Zealand Dollars	3,248	-14%	-2%	3,661	-18%	-3%	3,426	-26%	4%
BUTTER	Quoted USA ³	vs Last Year	vs Mar 20	Quoted EUROPE ²	vs Last Year	vs Mar 20	Quoted OCEANIA ²	vs Last Year	vs Mar 20
in US Dollars	\$ 2,601	-14%	0%	\$ 2,750	-35%	10%	\$ 1,800	-56%	-3%
in Euros	€ 1,929	0%	0%	€ 2,039	-25%	11%	€ 1,335	-49%	-2%
in New Zealand Dollars	4,456	15%	-5%	4,711	-14%	-7%	3,083	-41%	-7%
WHEY	Quoted USA ¹	vs Last Year	vs Mar 20	Quoted EUROPE ²	vs Last Year	vs Mar 20			
in US Dollars	\$ 413	-23%	5%	\$ 532	-11%	1%			
in Euros	€ 306	-10%	-2%	€ 395	3%	2%			
in New Zealand Dollars	708	3%	-5%	912	18%	-3%			
CHEDDAR CHEESE	Quoted USA ³	vs Last Year	vs Mar 20				Quoted OCEANIA ²	vs Last Year	vs Mar 20
in US Dollars	\$ 2,835	-29%	9%				\$ 2,400	-53%	-8%
in Euros	€ 2,102	-17%	1%				€ 1,779	-45%	-7%
in New Zealand Dollars	4,856	-5%	-2%				4,111	-37%	-12%

¹ USDA/AMS Dairy Market News Central AOM; ² USDA/AMS Dairy Market News AOR; ³ CME Weekly Avg
All currency valuations pegged back to the US Dollar ;Units in metric tons

CURRENCY CONVERSIONS					
	3-Apr	20-Mar	Change	Last Year	Change
Euro/US\$	1.3488	1.3552	-0.5%	1.5672	-13.9%
New Zealand\$/US\$	0.5838	0.5557	5.1%	0.7792	-25.1%
Chinese Renminbi/US\$	0.1464	0.1464	0.0%	0.1431	2.3%
Japanese Yen/US\$	0.9985	1.0433	-4.3%	0.9867	1.2%
British Pound/US\$	1.4825	1.4440	2.7%	1.9811	-25.2%

