

Dairy Situation and Outlook

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June Milk Rises Only 1.2%

A weak increase in milk per cow, up only 16 pounds, led to another small monthly milk production increase, +1.2%, during June compared to one year ago. May 07 milk production was revised down 31 million pounds or 1.1%. Second quarter 2007 US milk production was up 1.1% compared to the second quarter of 2006. Milk cow numbers averaged 2,000 less than last year.

Iowa milk production rose by 3.5% due to an increase of 8,000 cows to a total of 214,000 compared to one year ago. Cow numbers in Iowa were 2000 higher than May 07. Total cheese production in Iowa was off 12.1% from May 06 and up 4% from May 07.

Surrounding smaller dairy states also reported second quarter milk production. NE was down 4.2% and cow numbers declined to 58,000. ND had a milk production decline of 2.5% and 2000 fewer cows. SD added 9.9% more milk for the quarter and 4000 more cows.

Milk Production: Selected Dairy States, June 2007

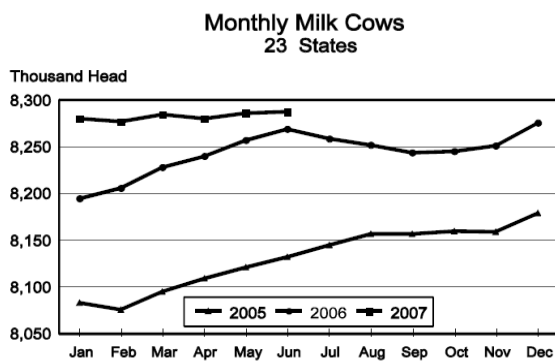
State	thousands			pounds			million pounds		
	2006 cow numbers	2007 cow numbers	% change cow numbers	2006 milk per cow	2007 milk per cow	% change milk/cow	2006 total milk production	2007 total milk production	% change total milk
Iowa	206	214	3.88%	1680	1675	-0.30%	346	358	3.47%
MN	450	460	2.22%	1560	1570	0.64%	702	722	2.85%
WI	1243	1247	0.32%	1590	1620	1.89%	1976	2020	2.23%
IL	103	103	0.00%	1590	1550	-2.52%	164	160	-2.44%
CA	1786	1804	1.01%	1795	1850	3.06%	3206	3337	4.09%
CO	111	118	6.31%	1965	1960	-0.25%	218	231	5.96%
ID	489	506	3.48%	1910	1910	0.00%	934	966	3.43%
NM	360	335	-6.94%	1875	1815	-3.20%	675	608	-9.93%
PA	555	549	-1.08%	1620	1590	-1.85%	899	873	-2.89%
NY	640	626	-2.19%	1595	1620	1.57%	1021	1014	-0.69%
TX	333	348	4.50%	1820	1740	-4.40%	606	606	0.00%
23-State	8269	8288	0.23%	1697	1713	0.94%	14033	14198	1.18%

Dairy Product Demand

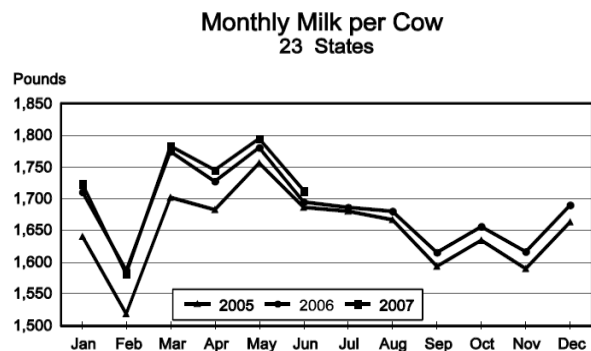
Commercial disappearance of dairy products for Jan07-May07 has been very good, +2.9%. The same period for 2006 was up 1.9%. Fluid milk products rose 1.2%; butter was up 15.5%, American style cheese up 1.6% and other cheese up 4.3%.

March dairy products in cold storage were higher too. Butter on June 30 was up 5% from the previous month and 2% from one year ago. Total cheese stocks were flat from the previous month and one year ago, so cheese stocks did not build during June Dairy month.

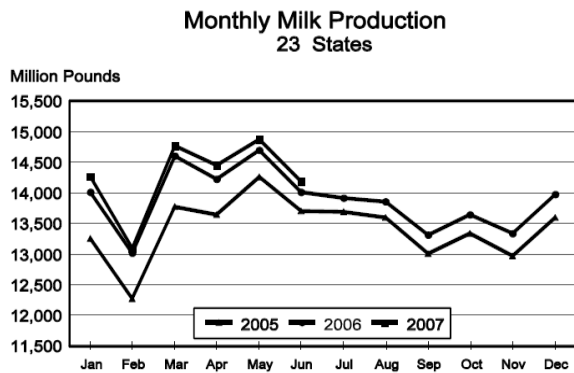
Dairy Market News reports cheese the cheese market as unsettled. Cheese buyers are waiting for weekly average cheese prices to decline before buying more inventory using this type of formula price. Their early Spring 07 concern about milk availability for cheese manufacture did not come about. Milk volumes from the West and southwest US have been slow to decline leading to current cheese, or young cheese, offerings heavier than usual.



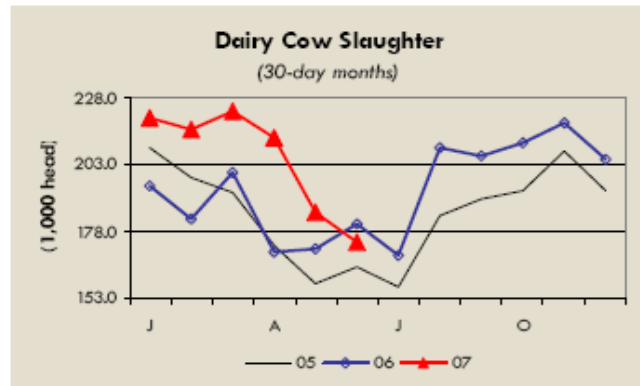
Source: Dairy Market News



Source: Dairy Market News



Source: Dairy Market News



Source: Daily Dairy Report

Analysis

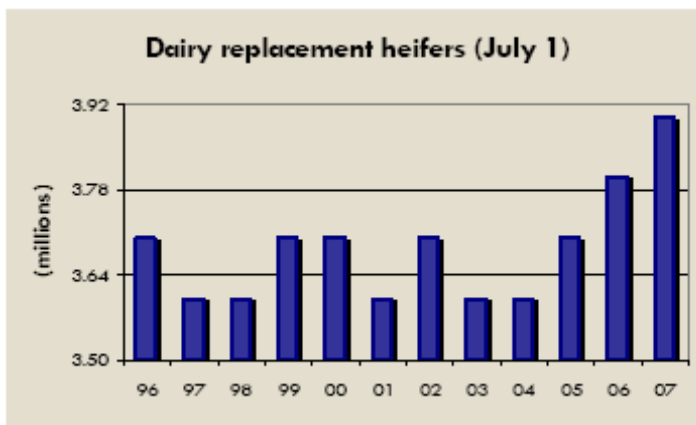
The dairy market certainly has been unsettled in the last several days. June 20 saw a drop in cash cheese prices of 9.25 and 9.5 cents. Several previous trading days had smaller price drops as well. Current cheese supplies appear to be more than adequate to meet buyer needs. Demand has been good thanks to a strong economy, both domestic and world, and a weak dollar. NDM continues moving into the export market at high prices, the weak US dollar helps this movement.

Daily Dairy Report comments that inquiries from European buyers for butter are being made in the US. European television is beginning to report expected milk product price increases for consumers, while milk production is also declining.

Feed prices have moderated a lot since February and the subsequent rise in Class III prices has helped cash flow for dairy operators. The milk-feed price ratio released later today should be near or above 3.00 for the first time since January 2006. Reduced milk cow slaughter and high levels of dairy replacement heifers should provide more milk in the coming months. But 2008 corn usage by ethanol plants will pressure corn and soybean prices early in 2008 when planting decisions are being made. Dairy producers will need to watch their feed costs carefully and manage their feed price risk.

A few reports of inquiries from European buyers about butter imports have spawned speculation that cheese exports may also follow. With a weak US dollar, cheese imports by Europe would cost approximately \$1.50 for Class III US prices near \$2. Additional sales of cheese for export should be expected.

The current USDA 2007 milk production projection stands at 184.3 billion pounds and USDA forecast a 2.25 production increase for 2008. 2007 milk production per cow is forecast at 1.4% increase. This scenario should support milk prices at least as high as the current ones. Even though the consumer price index for dairy products is now close to a record high, no slow down in commercial dairy product disappearance has appeared.



Source Daily Dairy Report