



2011 Dairy Market Outlook



Presented For:

Commodity Risk Management

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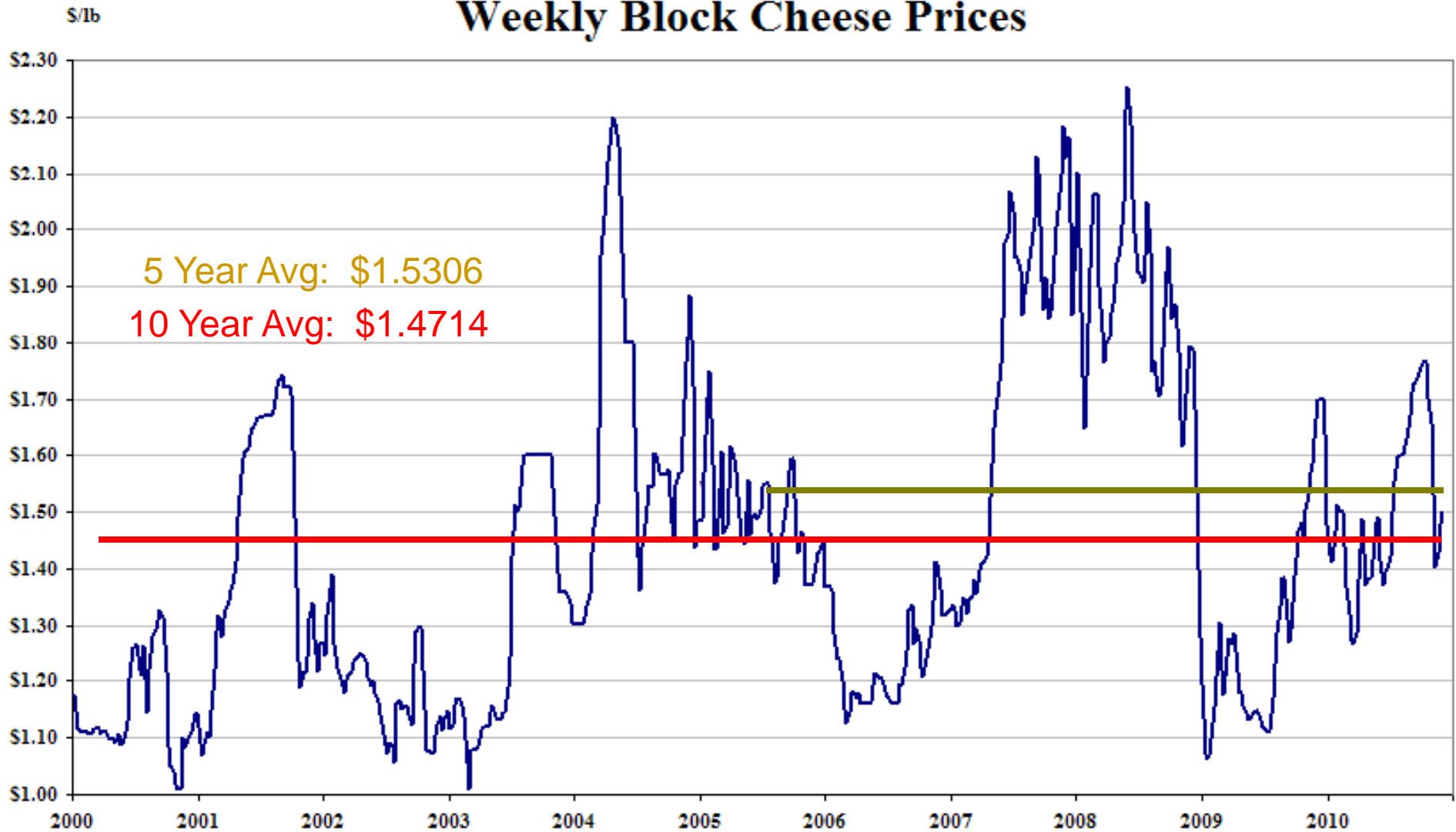
Background on Eric Meyer

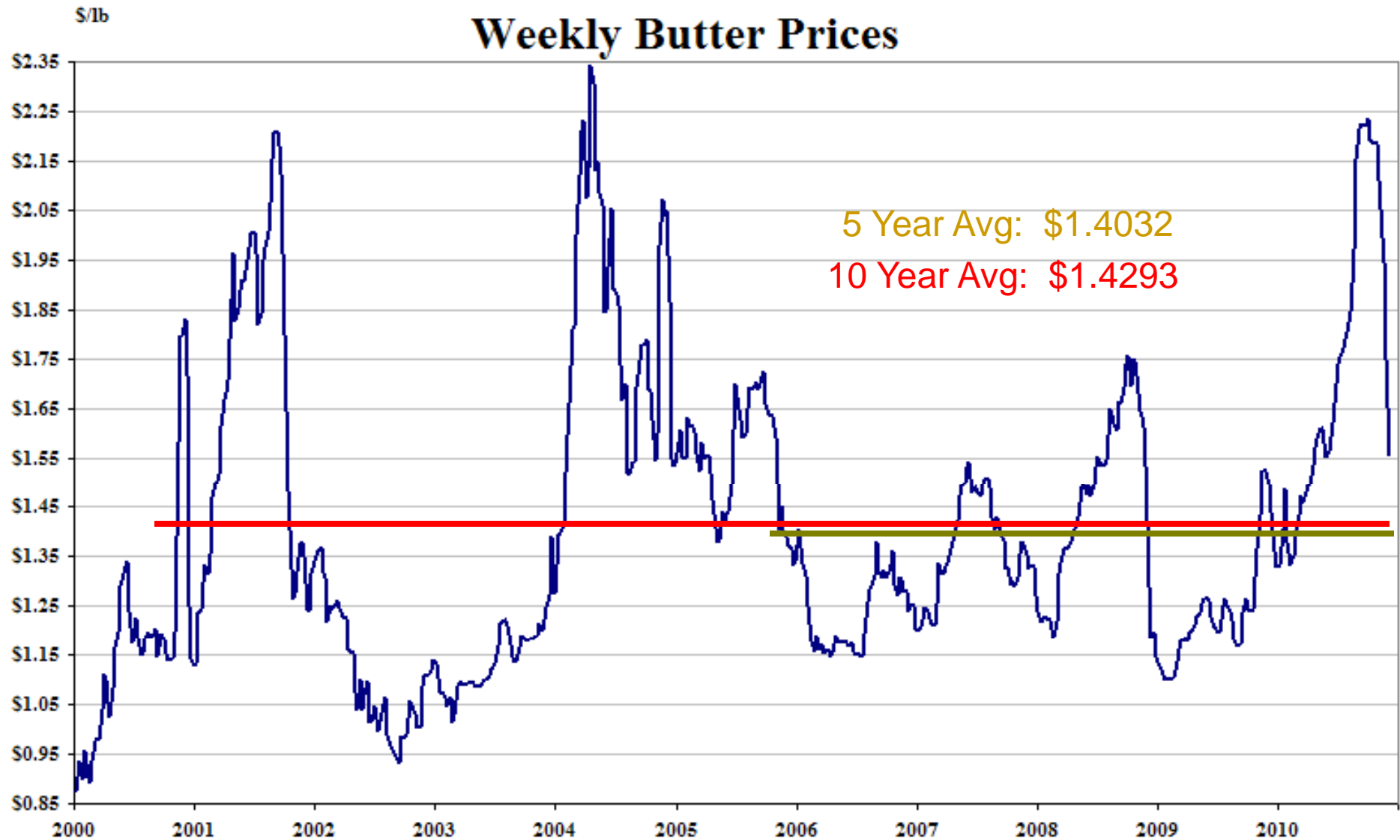
- 2000 – 2005 – Downes-O’Neill LLC & eDairy, Inc.
 - Vice President of Marketing & Operations
 - Helped grow dairy brokerage business by spearheading educational risk management seminar series and annual Outlook Conference
- 2006 - 2008 – Sara Lee Corporation
 - Category Manager – Dairy & Corn Sweeteners
 - Worked with over 20 different cheese and corn syrup suppliers supplying raw materials to over 70 Sara Lee bakeries and meat plants
 - Managed \$100MM annual dairy spend and \$45MM annual corn sweetener spend for all of Sara Lee North America
 - Active in hedging natural and process cheese, cream cheese, butter and corn using futures and options
- 2008 – Present: Downes-O’Neill, a division of FCStone/INTL
 - Working with dairy producers, processors and end-users to educate and implement price risk management programs using futures, options and OTC swaps

Today's Agenda

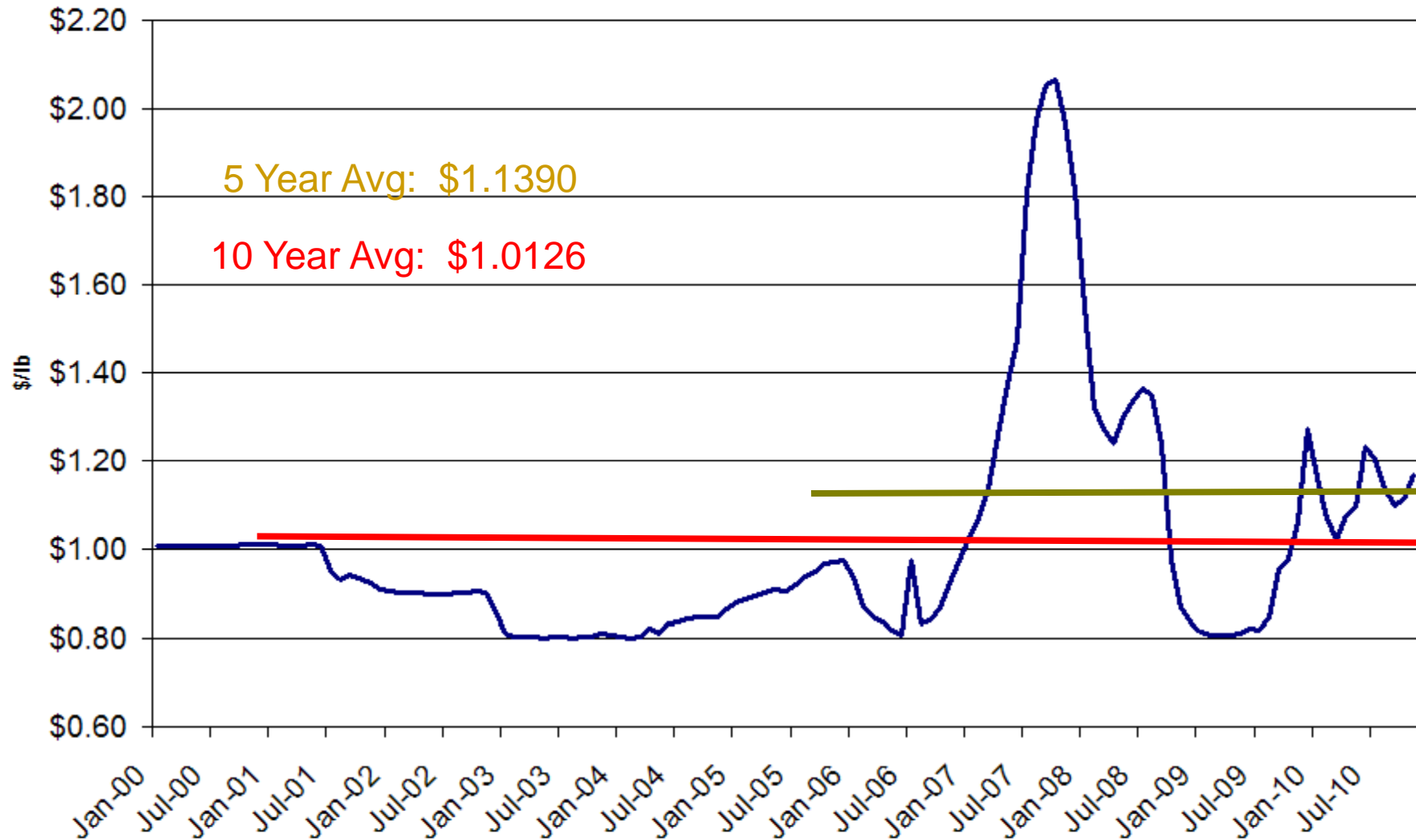
- Current View of Dairy Commodity Pricing
- Fundamental Analysis
- 2011 Dairy Price Forecasts

Weekly Block Cheese Prices





Monthly NFDW CWAP



2009 – 1st Half 2010 Dairy Market

- Historically Low Milk & Dairy Commodity Prices -- WHY??
- Global Recession led to weak domestic and international demand
- Oceania milk production recovery
- Government programs (MILC, DELAP) provided dairymen with direct payments
- Banks kept dairies afloat longer than expected, mild Midwest weather contributed to a seven month lag before Y/Y US milk production declined
- Cheese production remained strong, butter production suffered as more milk was available in Midwest vs. West

2nd Half 2010

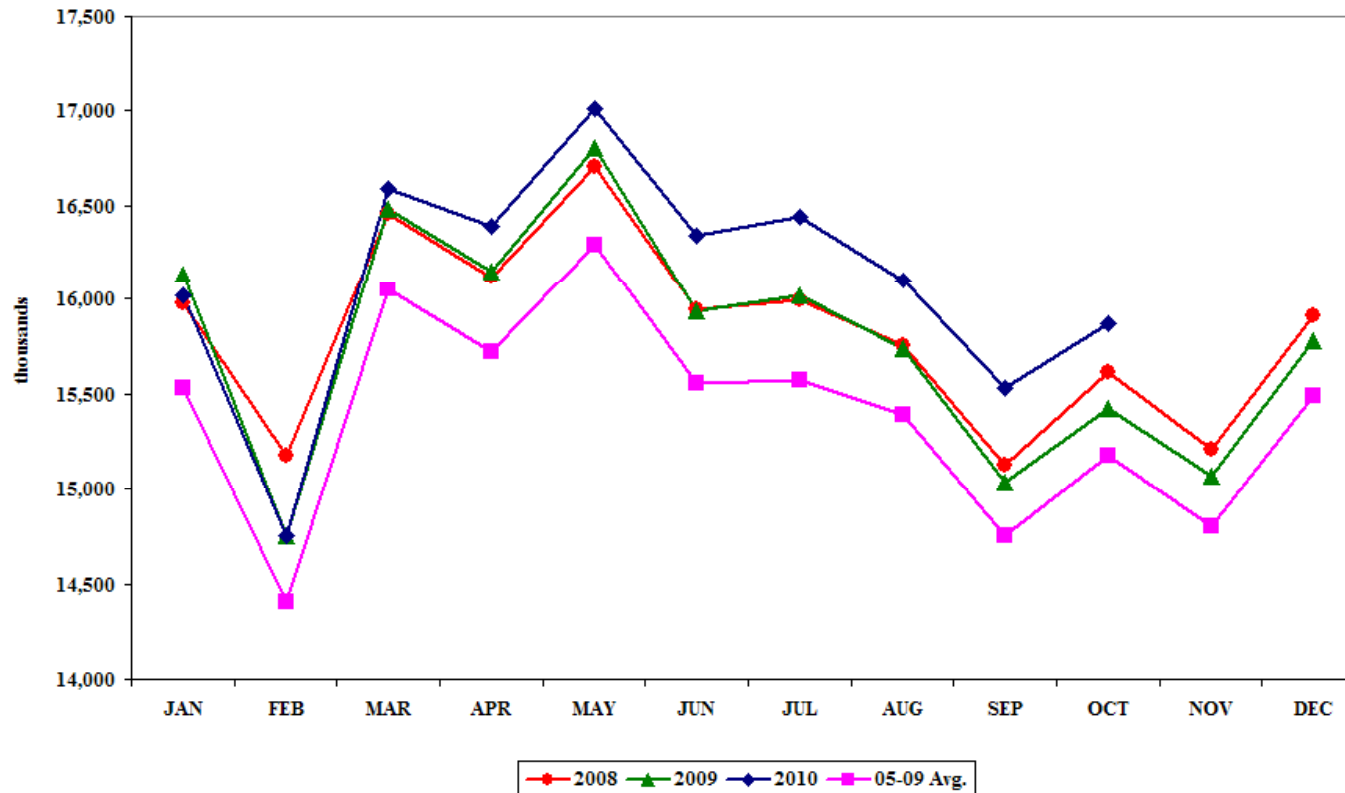
- Historically High Butter Price – surging global butterfat demand, low inventories
- Increasing cheese prices – domestic & export demand increasing, heavy domestic inventories
- Rebound in Milk Production much stronger than expected
- Feed costs surging, general commodity inflation?

Market Outlook – Milk Production

Oct Milk Production UP 2.9% Milk Per Cow UP 45 lbs vs. Oct 09

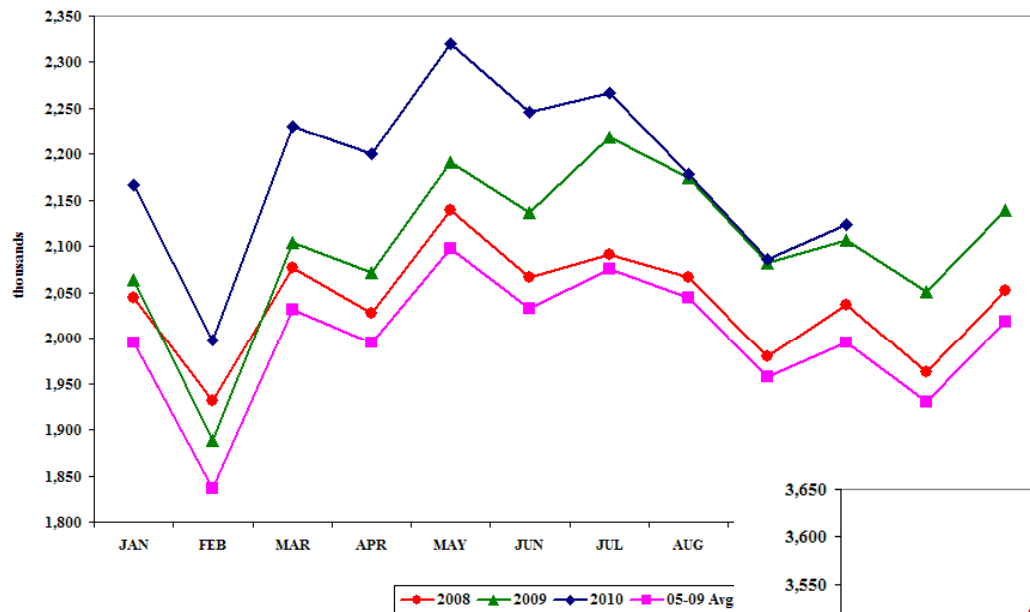
YTD Milk Production UP 1.6% Milk Cows UP 22k since Oct 09

Milk Production - United States

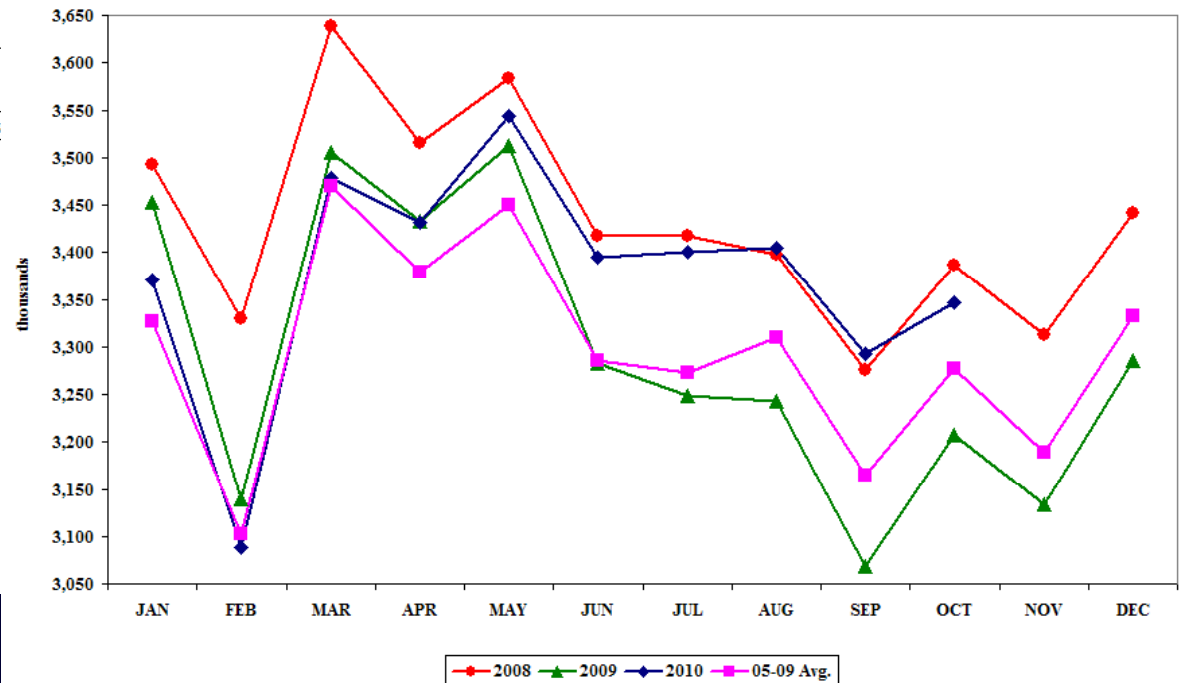


Market Outlook – Milk Production

Milk Production - Wisconsin



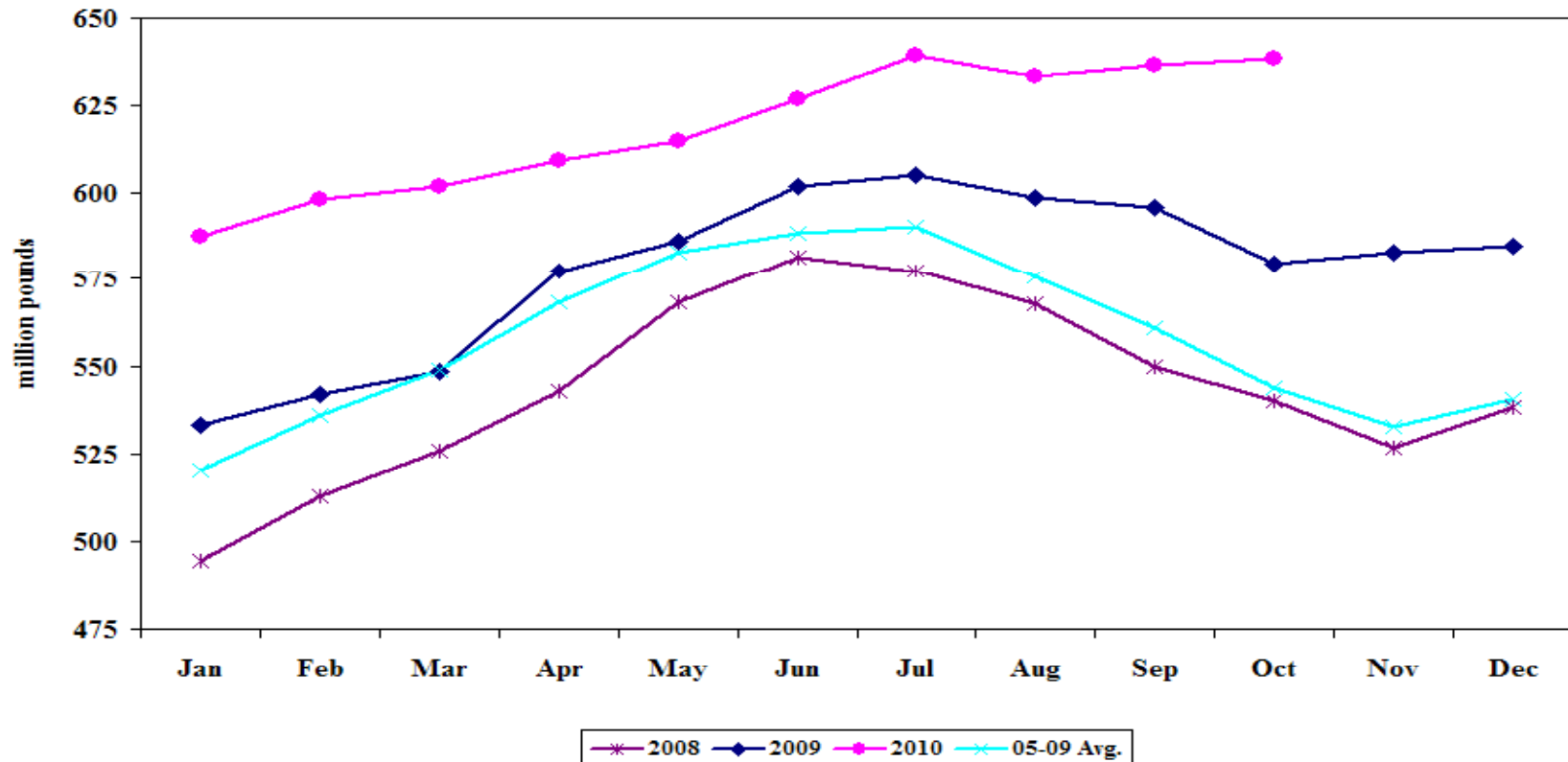
Milk Production - California



Cold Storage – Cheese Outlook

- American Cheese Stocks UP 10.2% vs. Oct 09
- Total Cheese UP 7% vs. Oct 09 (1.037 billion lbs)
- Largest Oct total cheese stocks since 1984

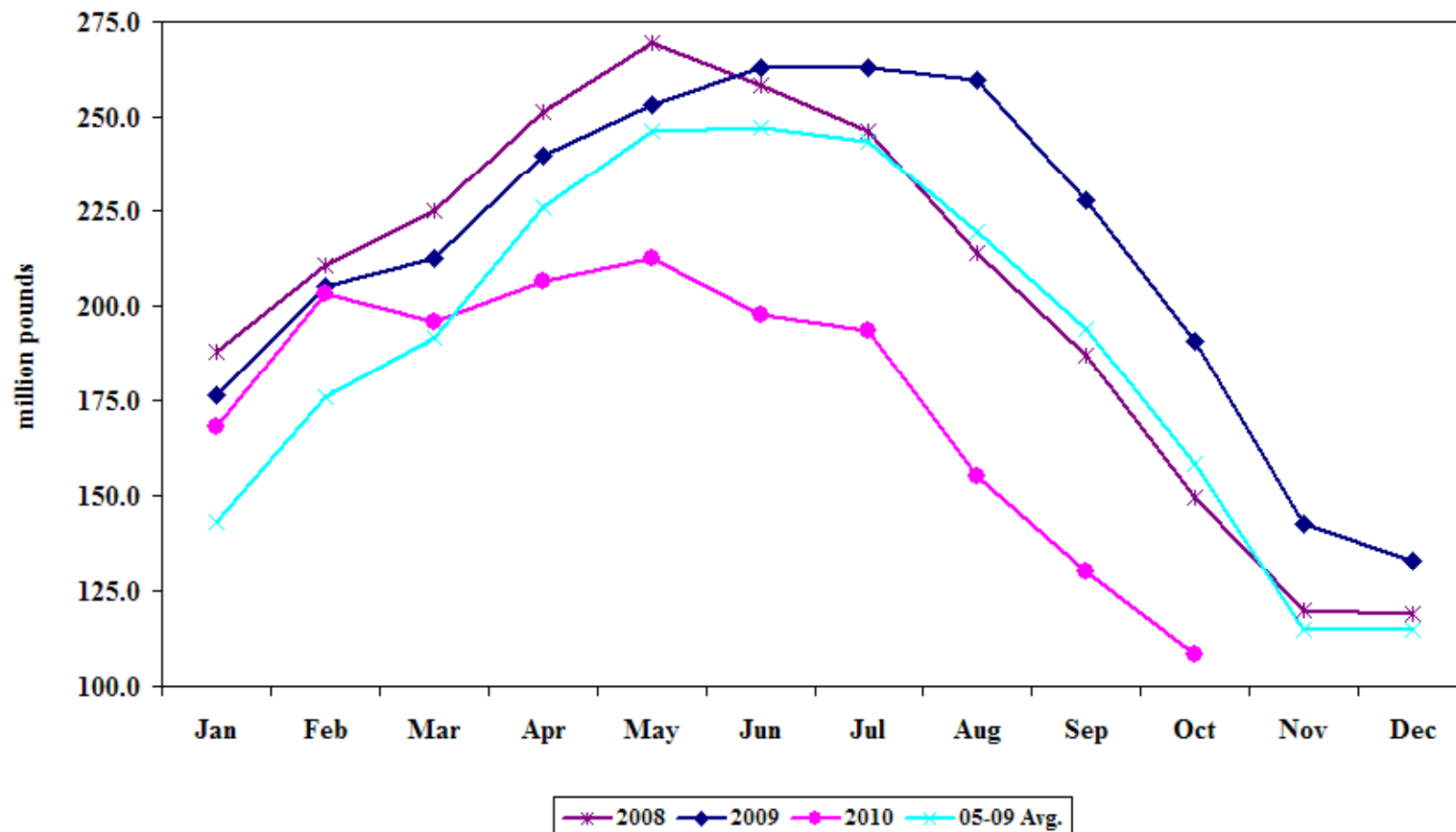
U.S. Natural American Cheese Stocks



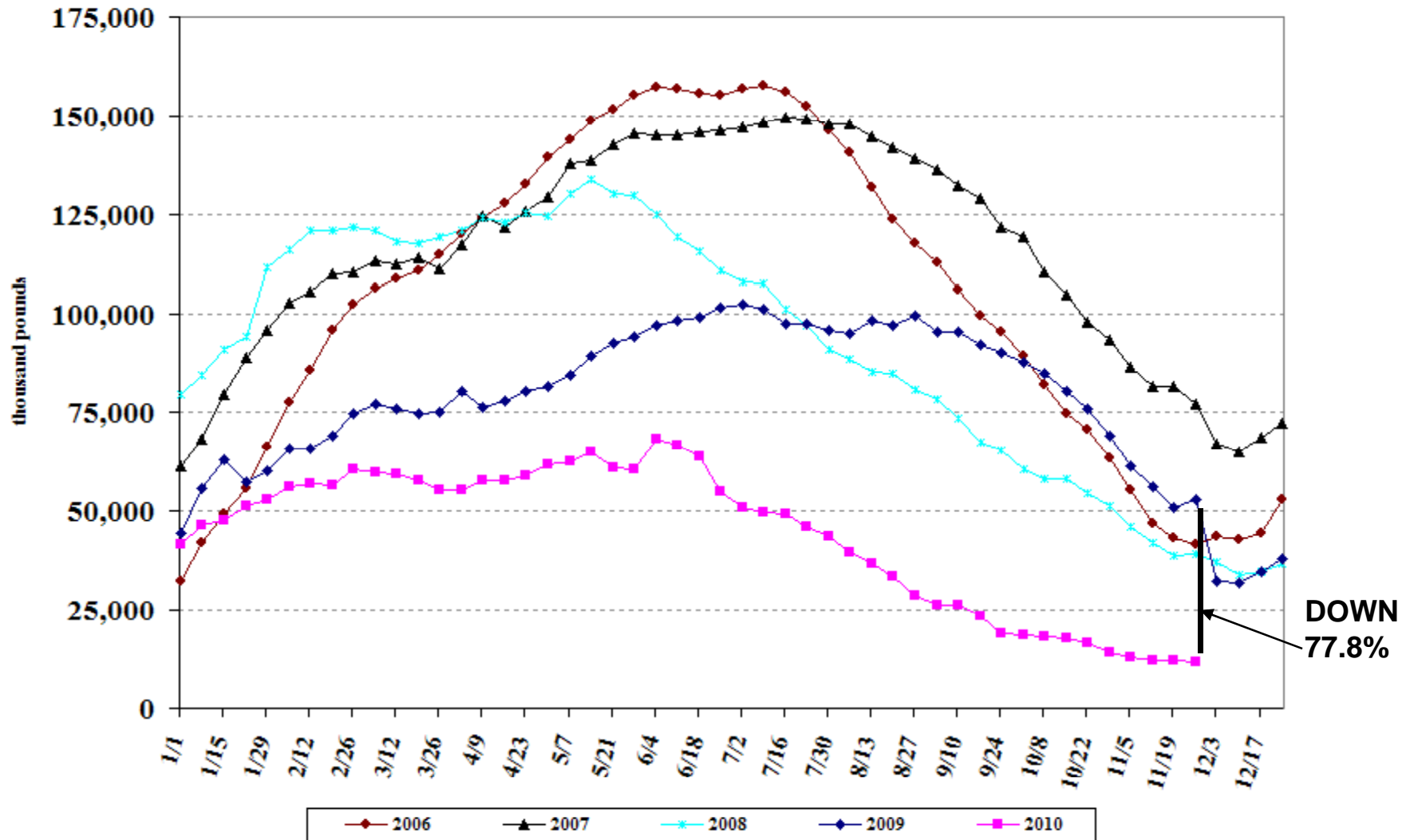
Cold Storage – Butter Outlook

- Butter Stocks DOWN 43.3% vs. Oct 09
- Lowest October Total since 2005

U.S. Butter Stocks



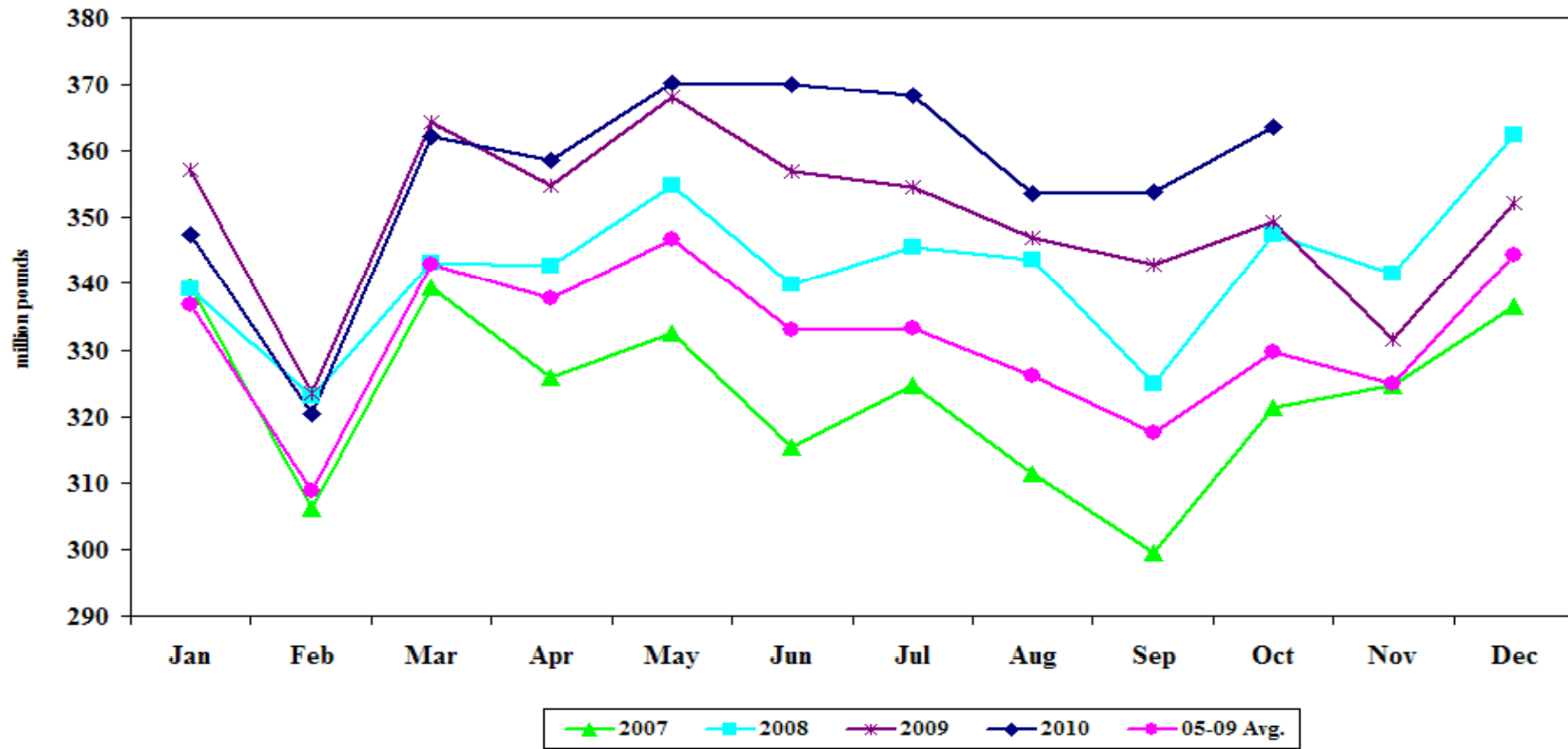
CME Weekly Butter Stocks



Dairy Products – Cheese

- American Cheese Production UP 4.1% vs. Oct 09
- Total Cheese UP 3.5% vs. Oct 09
- YTD Total Cheese Production UP 3.0%, Am Cheese UP 1.4% YTD

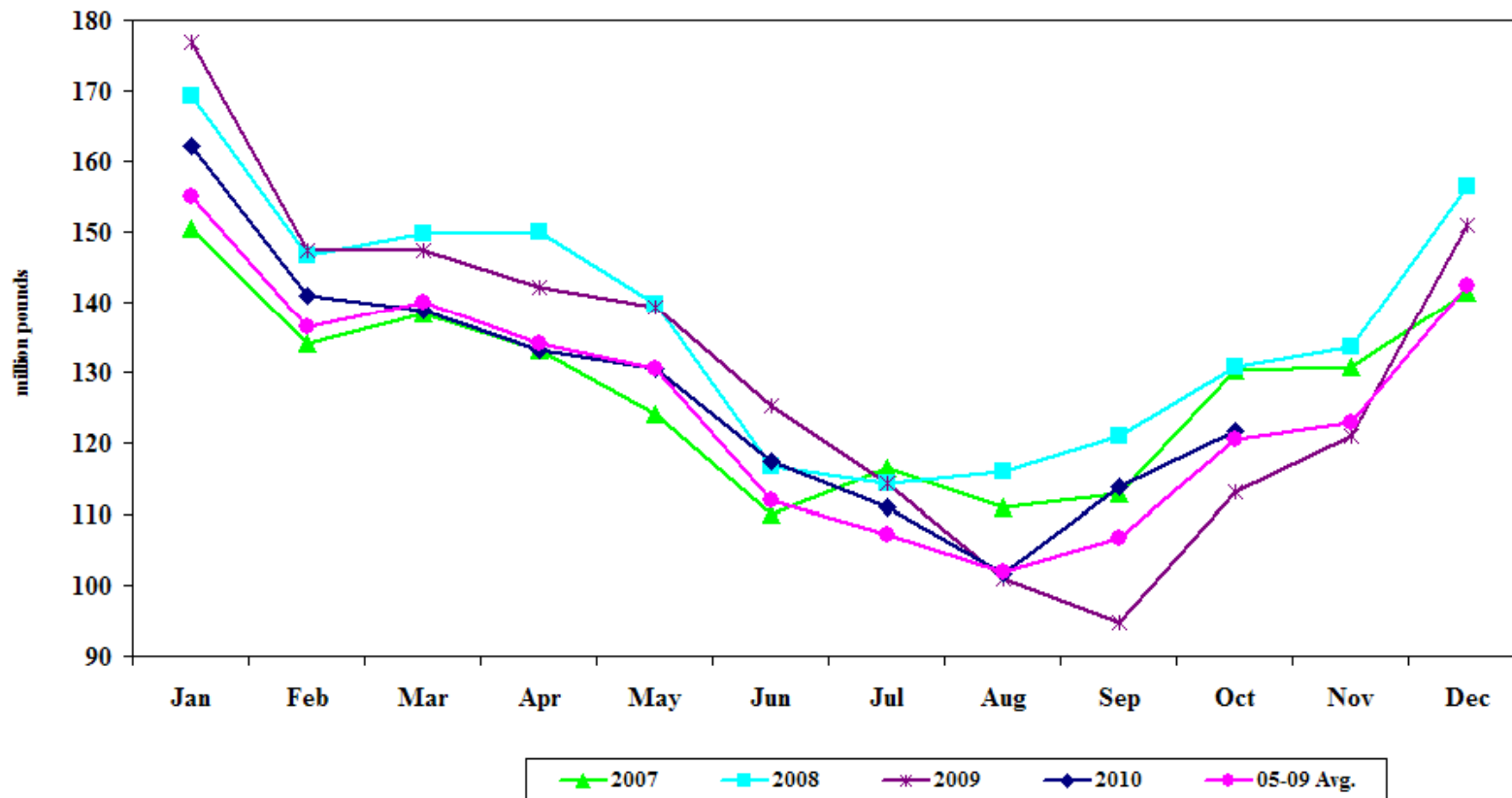
U.S. American Cheese Production



Dairy Products – Butter

- October Butter Production UP 7.5% vs. Oct 09
- Butter Production DOWN 2.4% YTD vs. 2009

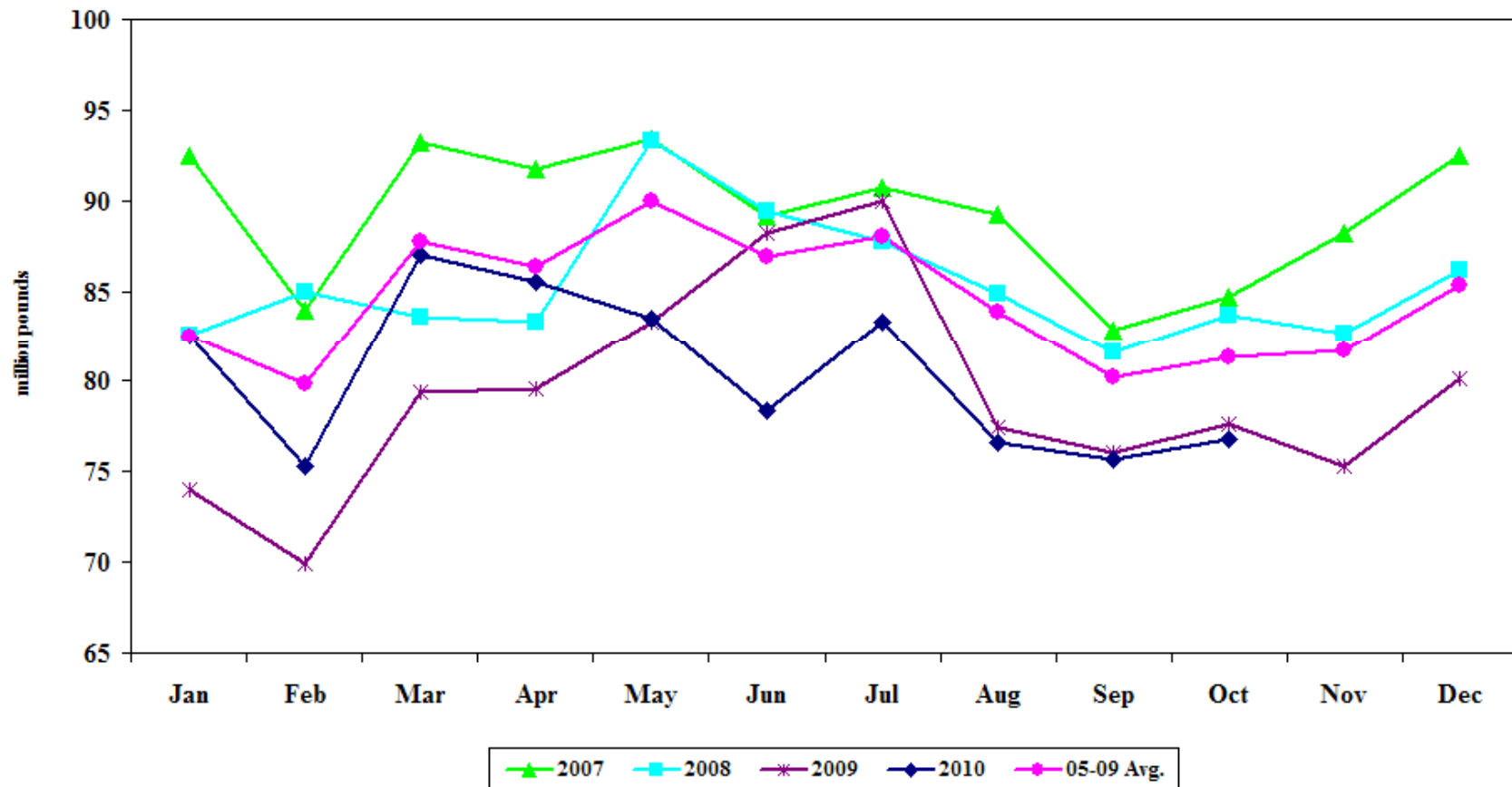
U.S. Butter Production



Dairy Products – Dry Whey

- YTD Dry Whey Production UP 1.2% vs. 2009, DOWN 5.9% vs. 2008

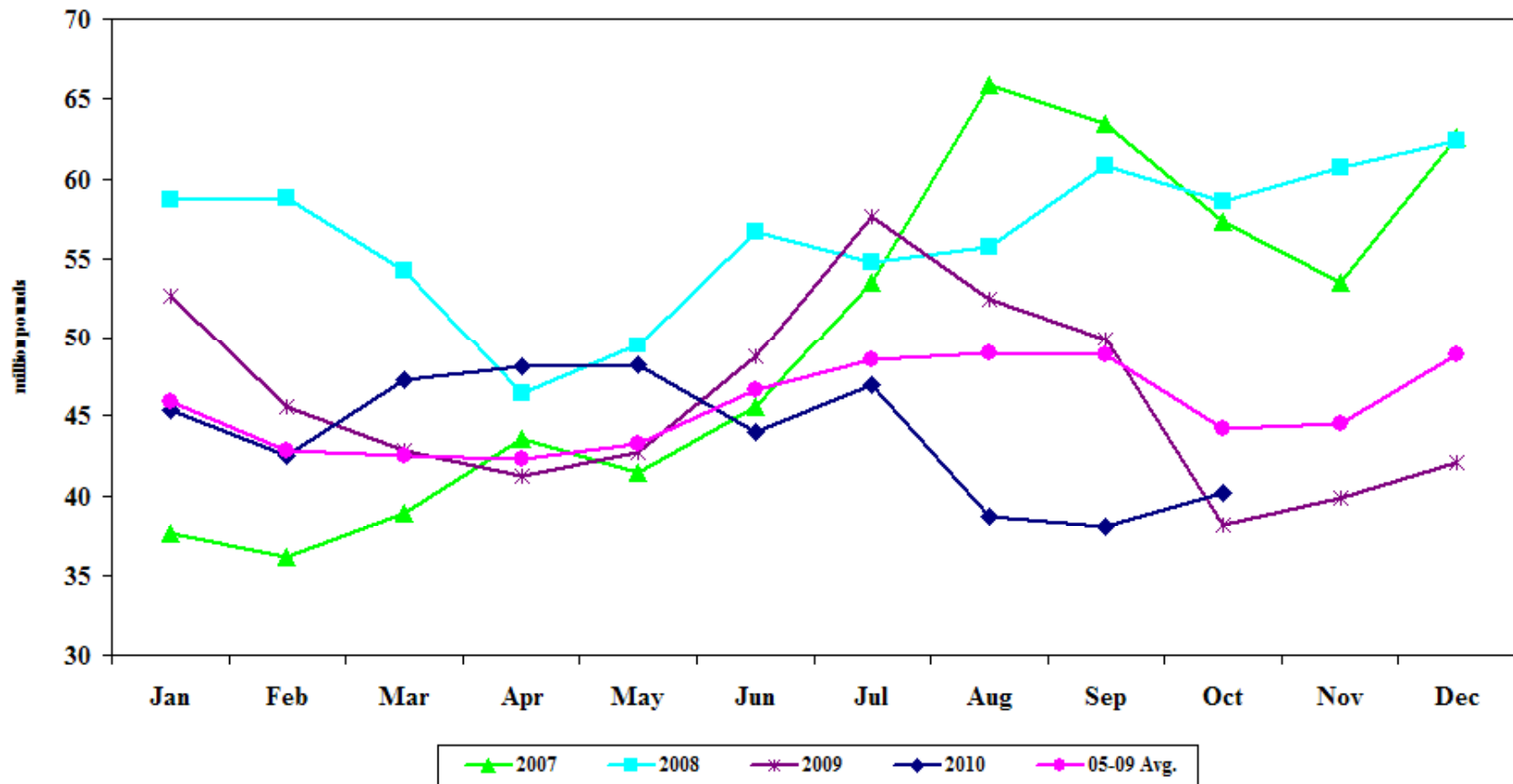
U.S. Dry Whey Production



Dairy Products – Dry Whey Stocks

- October Commercial Dry Whey Stocks UP 5.3%, DOWN 31.4% vs. 2008

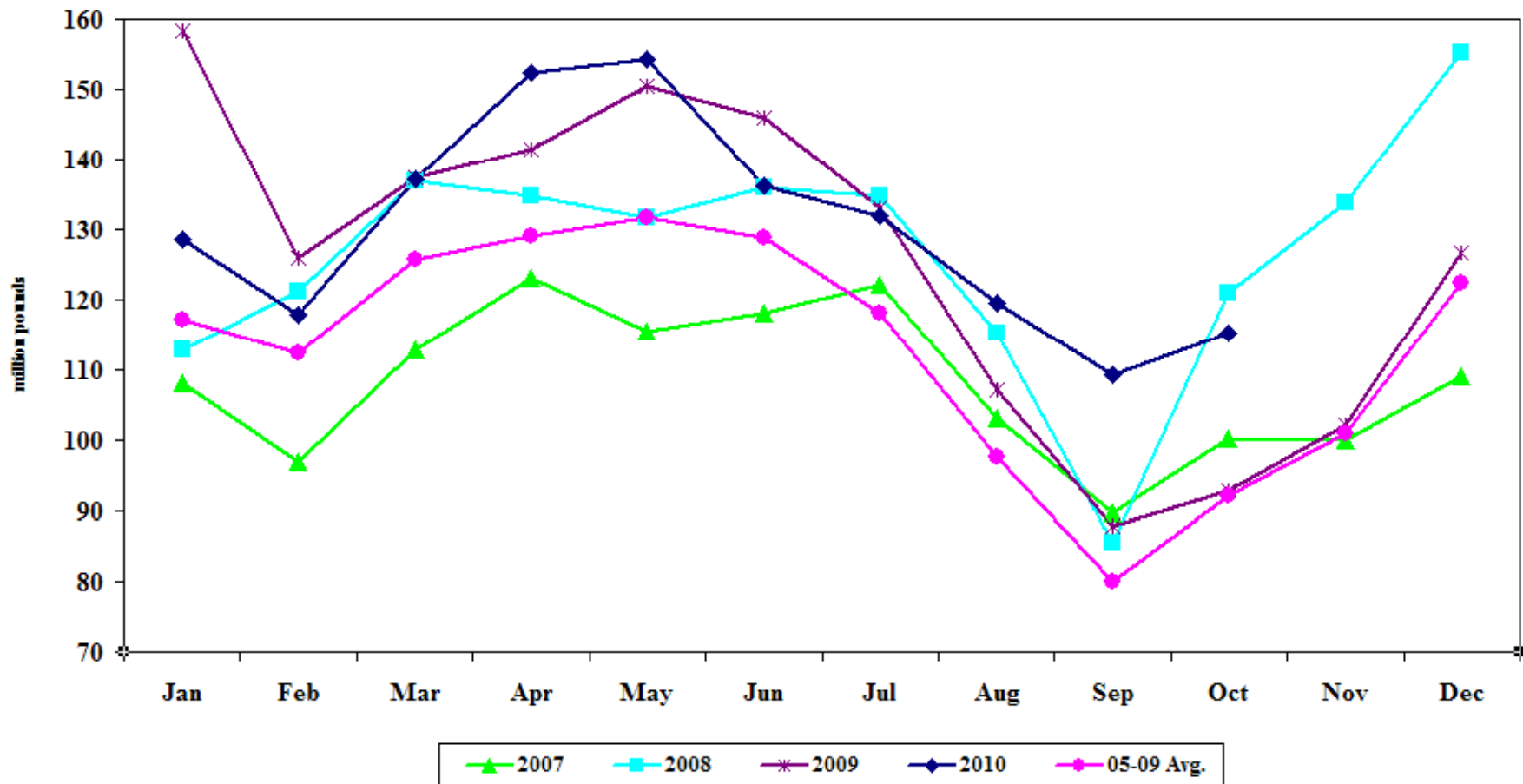
U.S. Commercial Stocks - Dry Whey



Dairy Products – NFDM

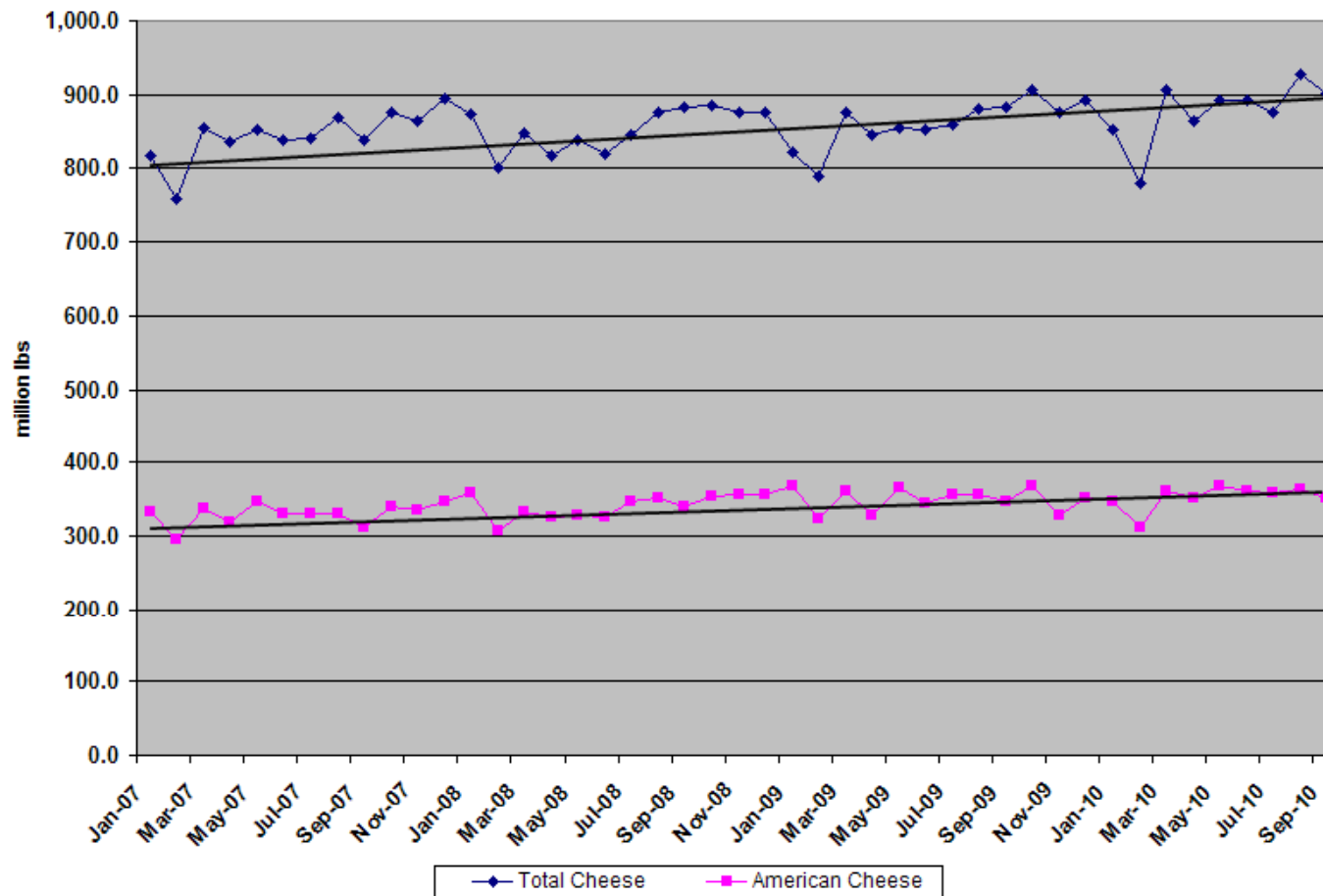
- YTD NFDM Production UP 1.7% vs. 2009

U.S. NFDM Production



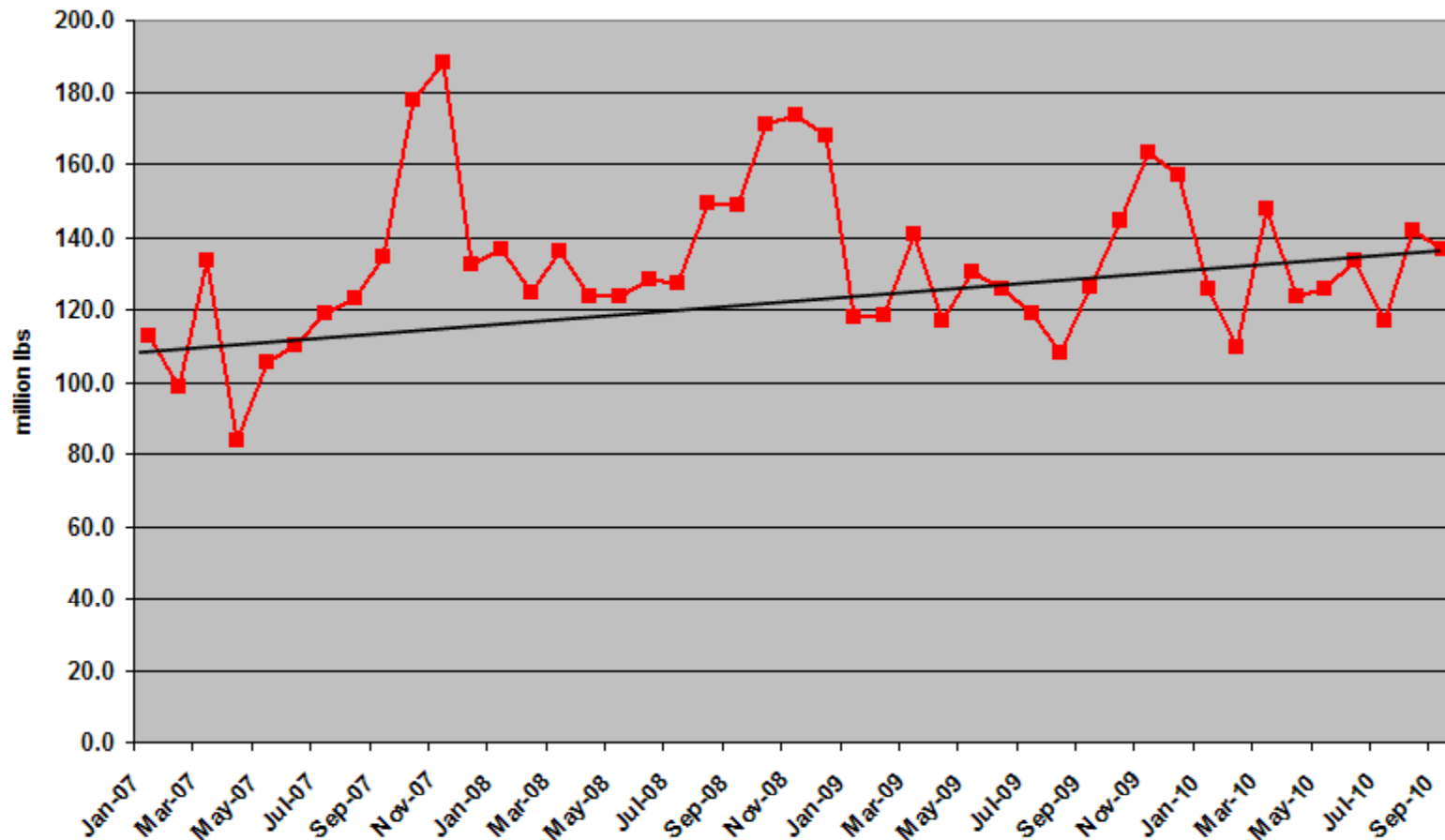
Commercial Disappearance – Cheese

- YTD American Cheese UP 0.7% vs. 2009, UP 4.2% vs. 5 Yr Avg
- YTD Total Cheese UP 3%, UP 3.9% vs. 5 Yr Avg



Commercial Disappearance – Butter

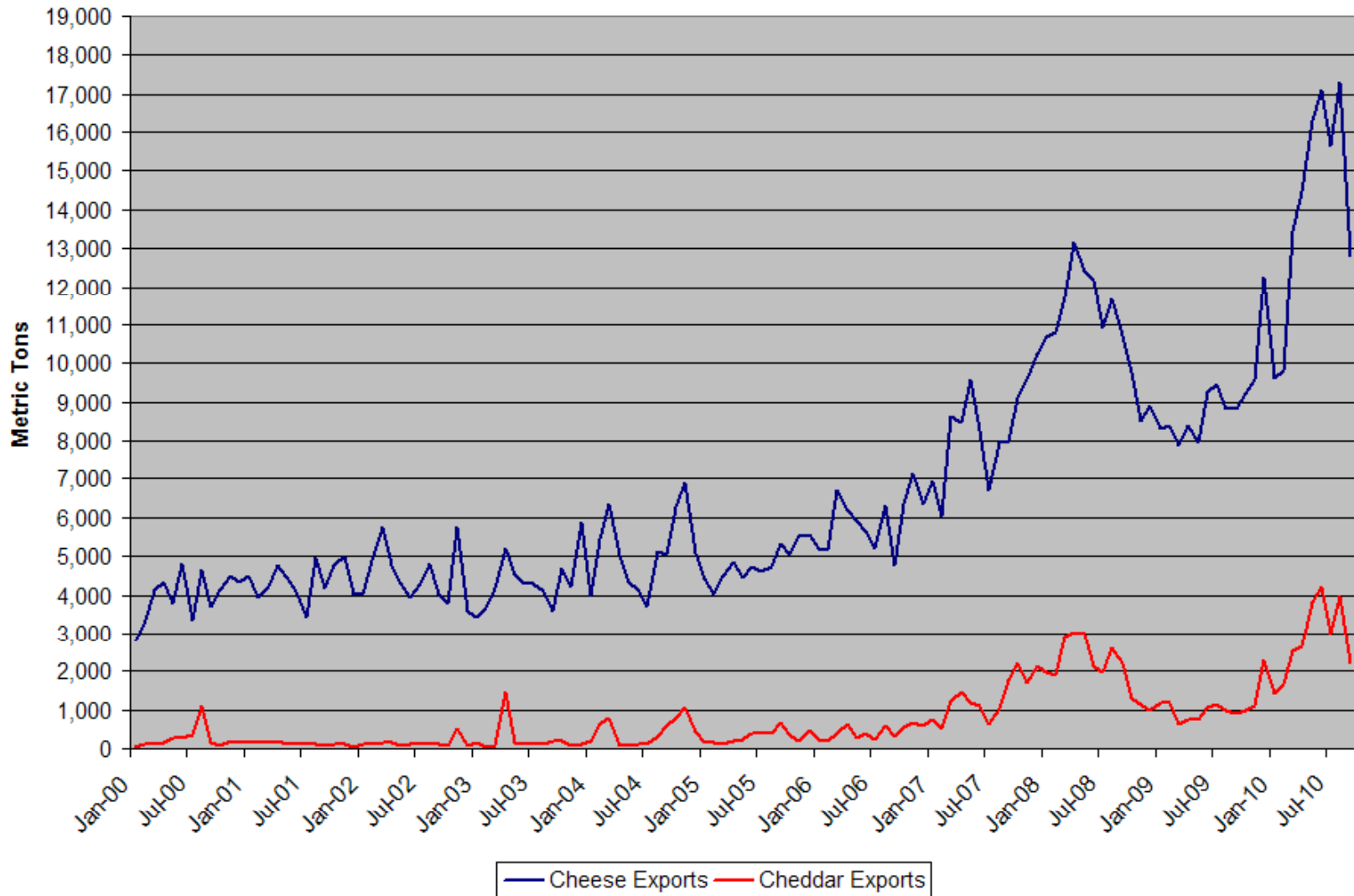
- YTD Butter UP 5.2% vs. 2009, UP 6.5% vs. 5 Yr Avg



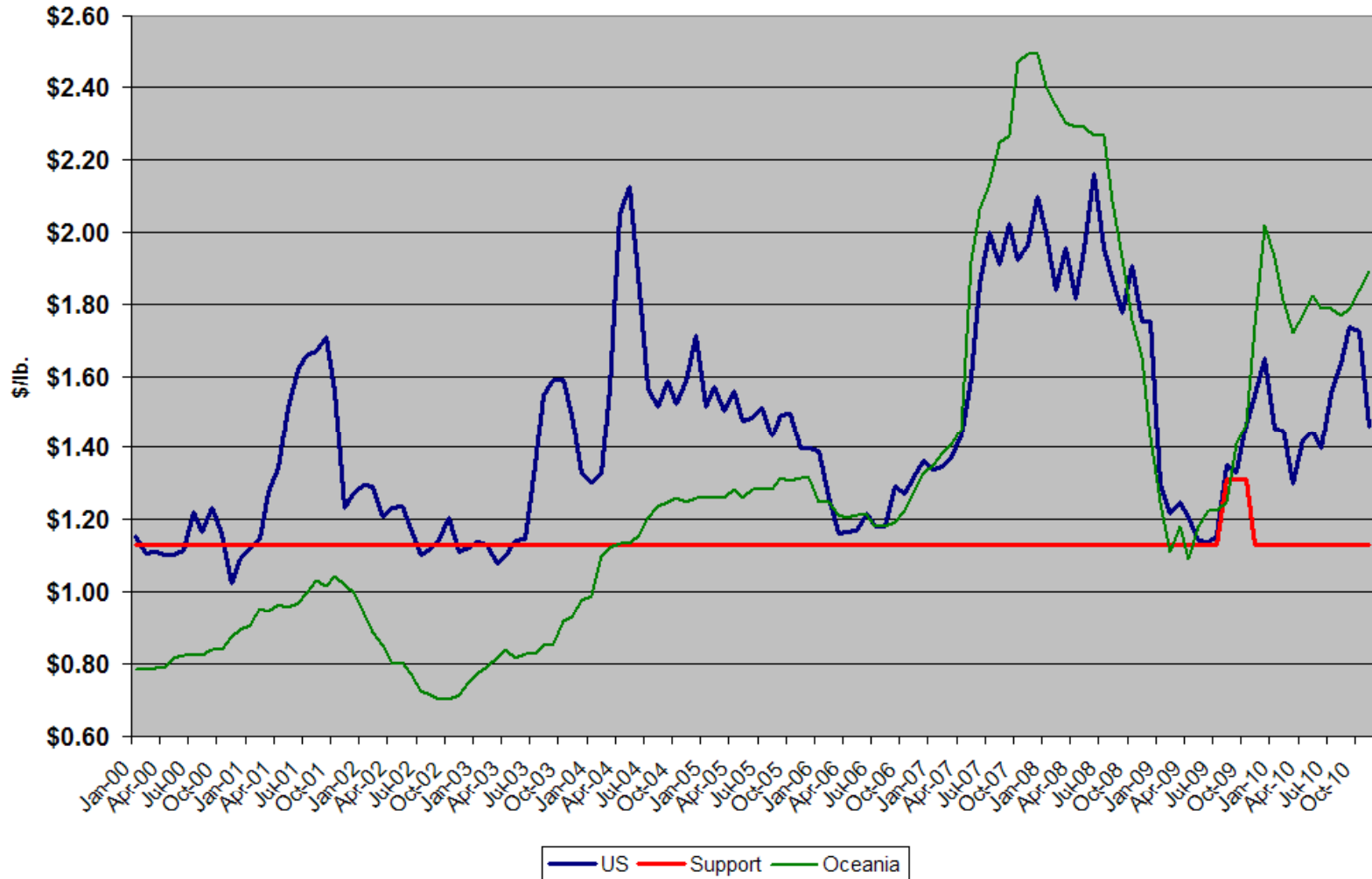
US Dollar Index Historical Chart



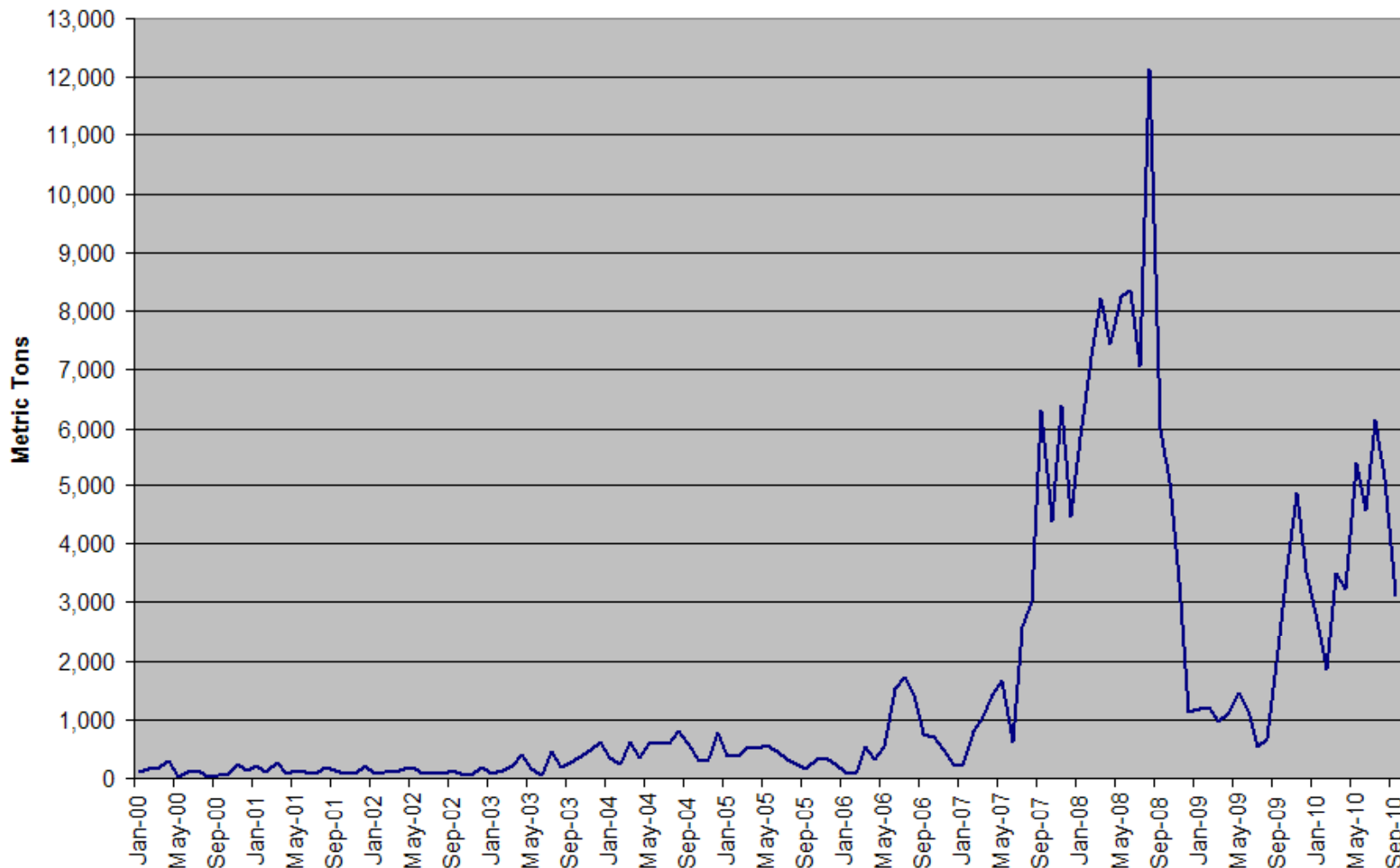
Cheese Exports



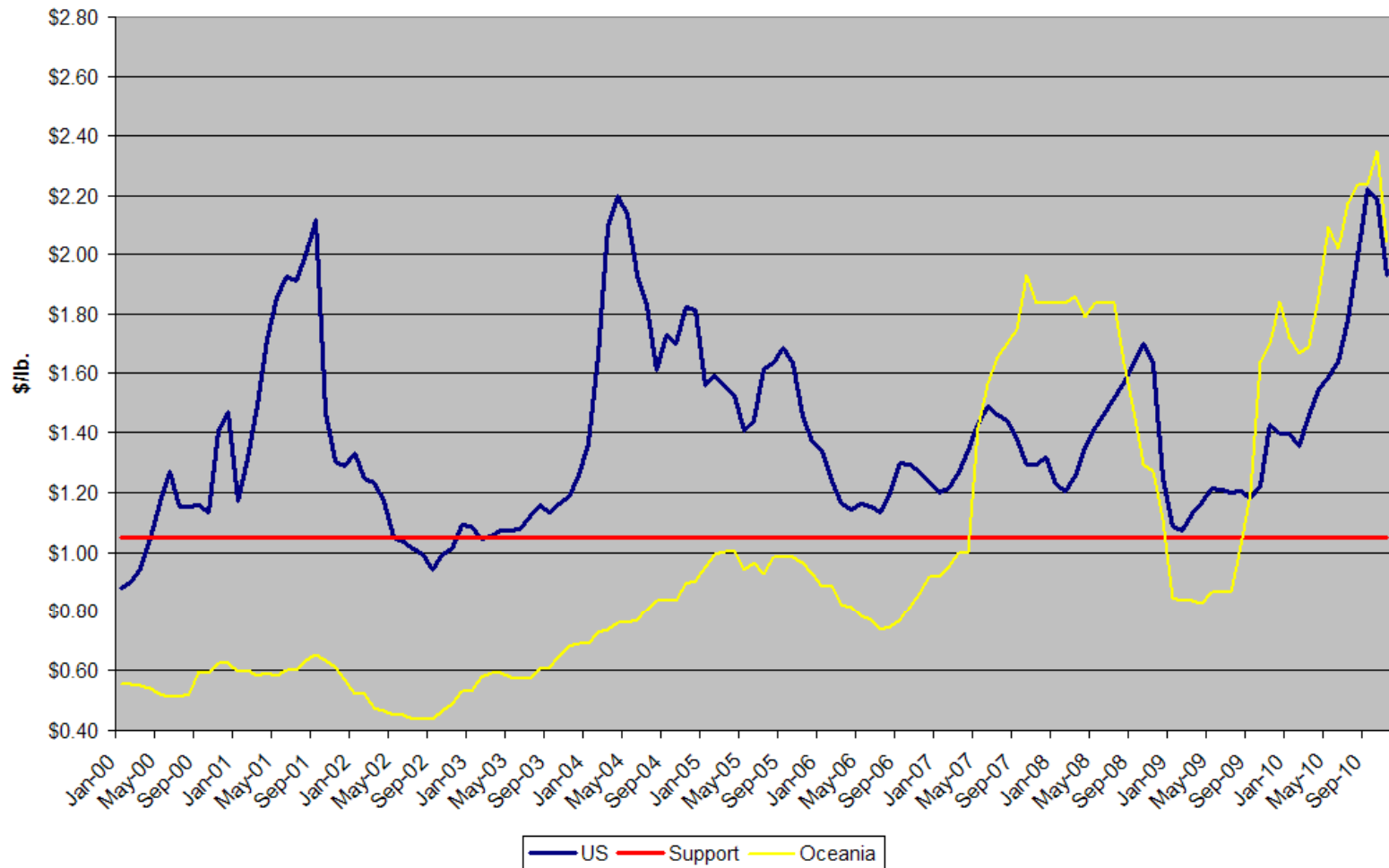
International Cheese Prices



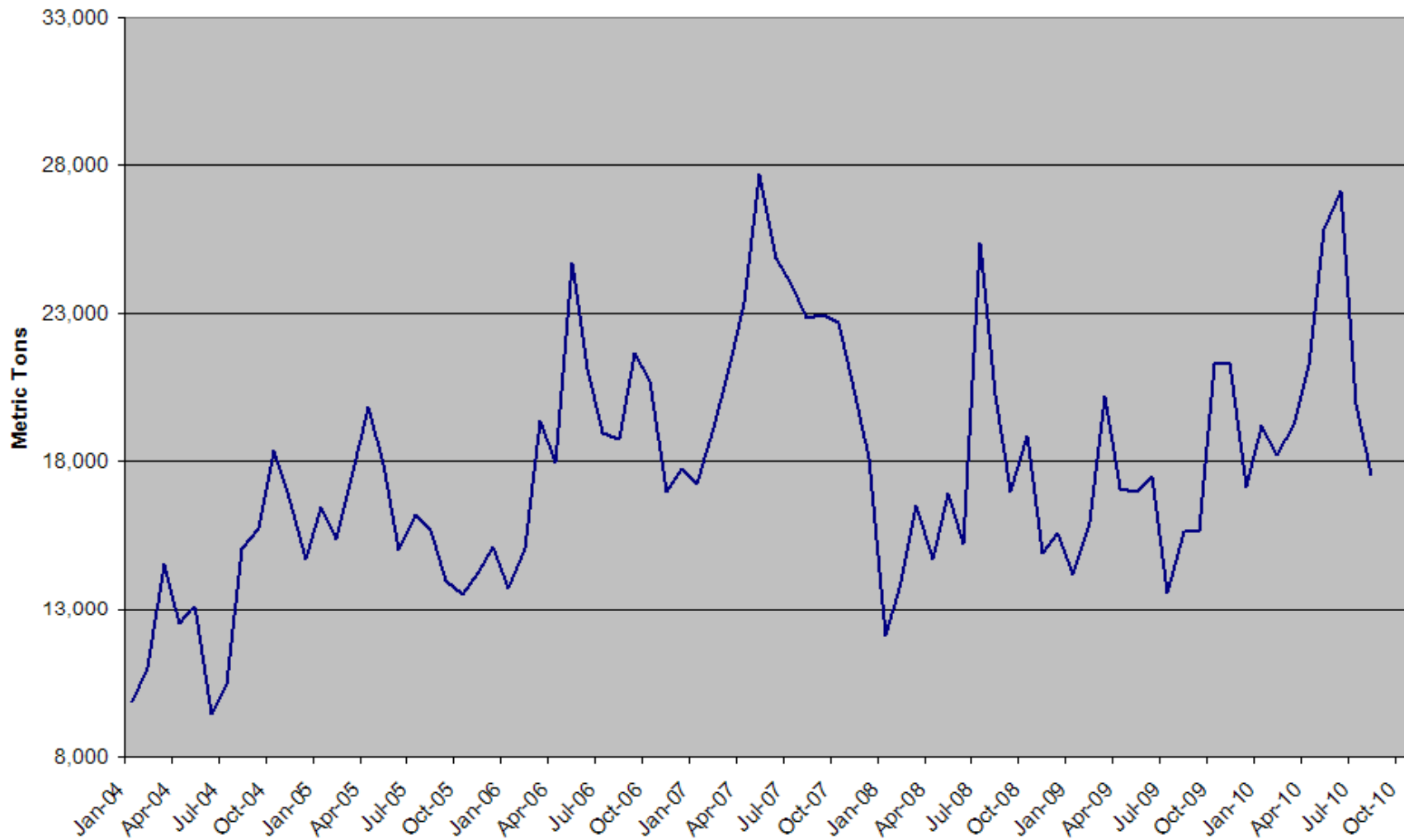
Butter Exports



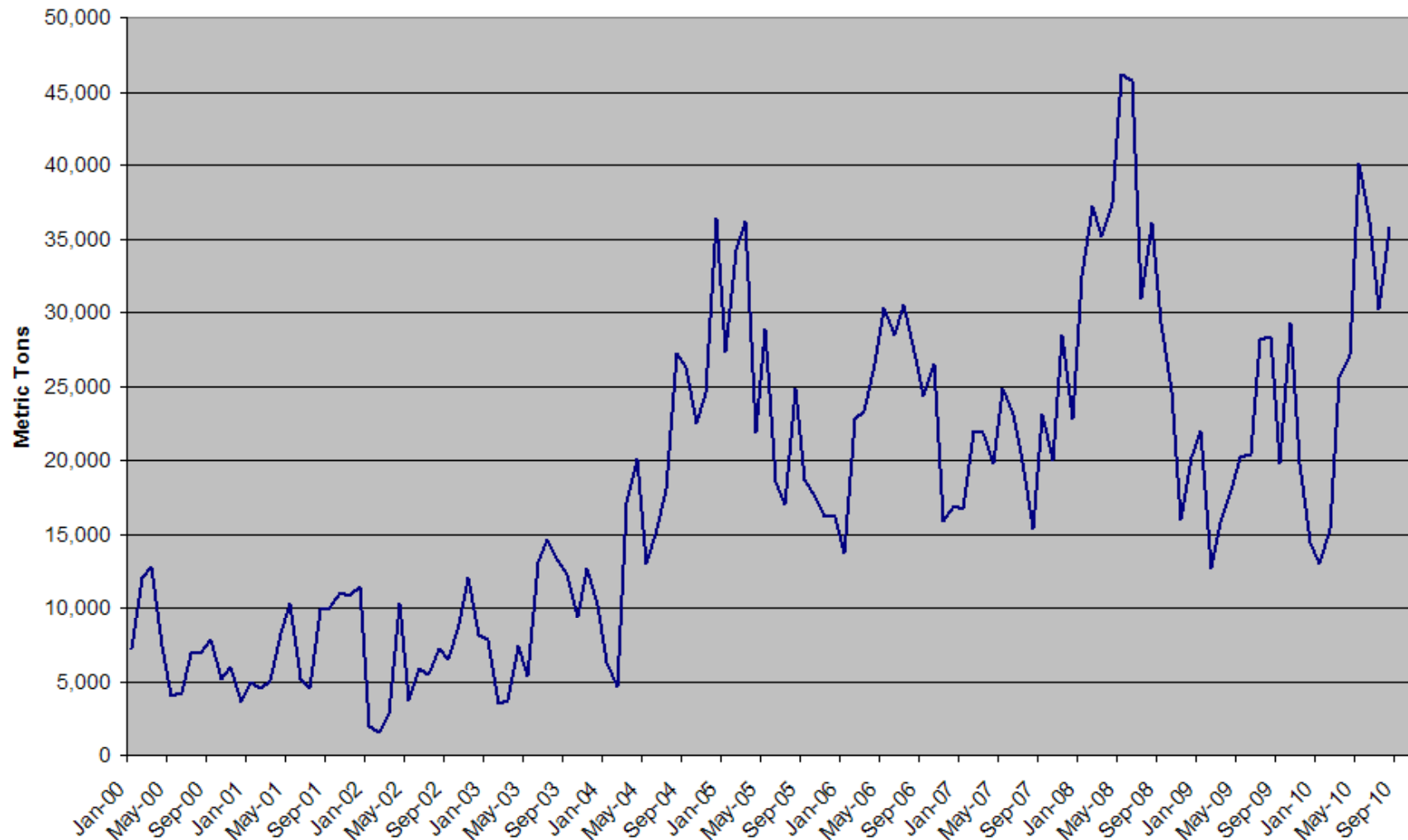
International Butter Prices



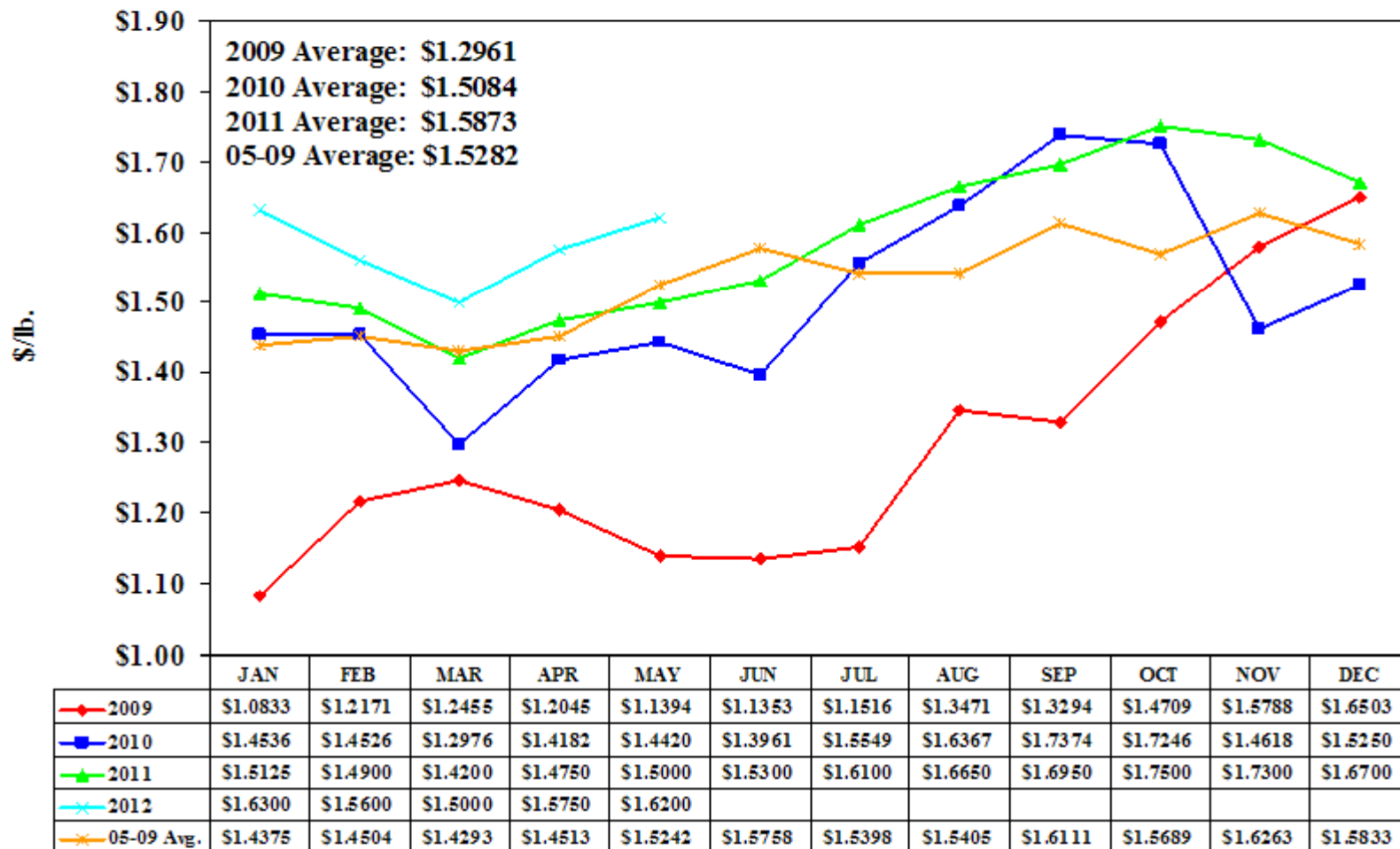
Dry Whey Exports



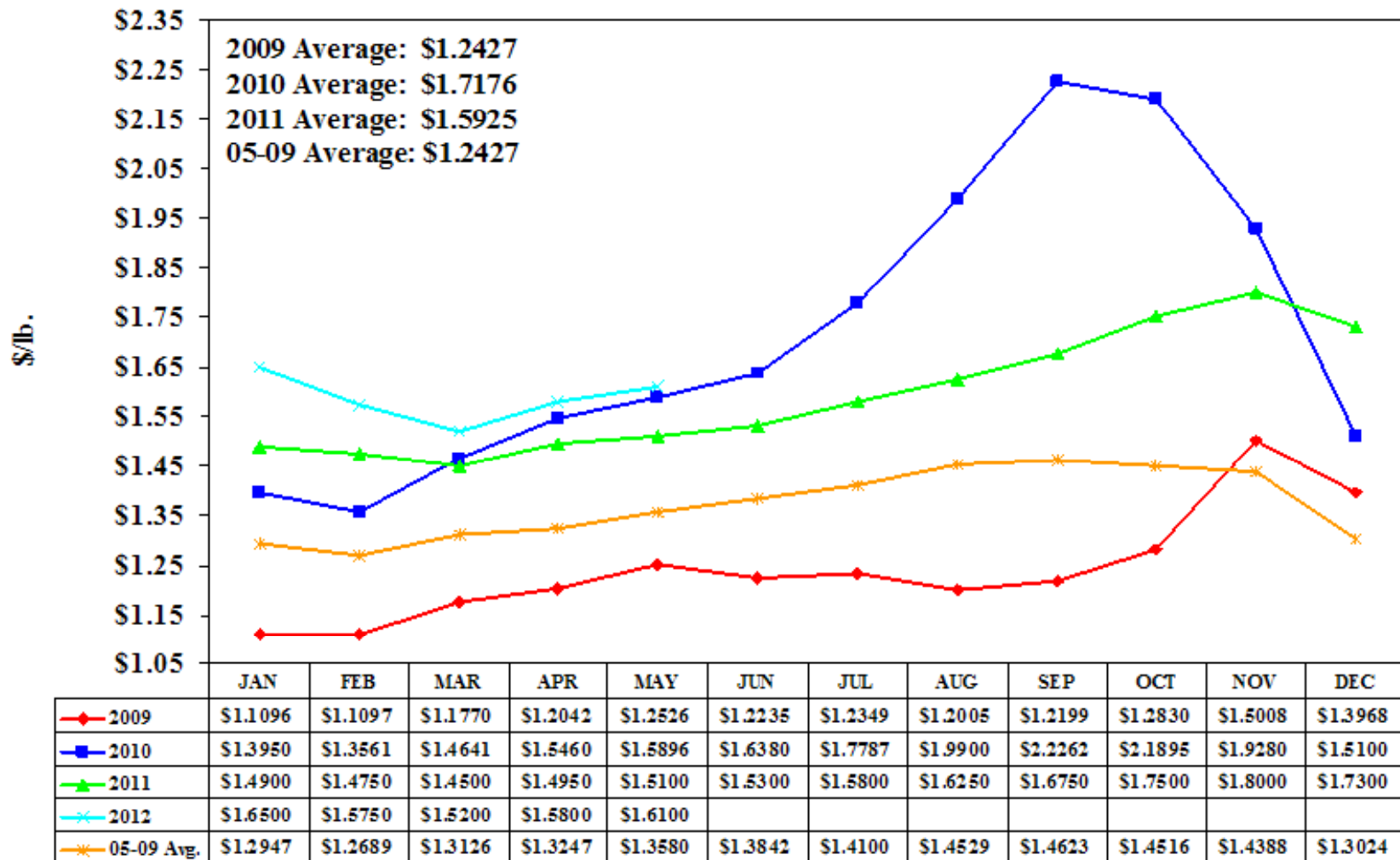
NFDM/SMP Exports



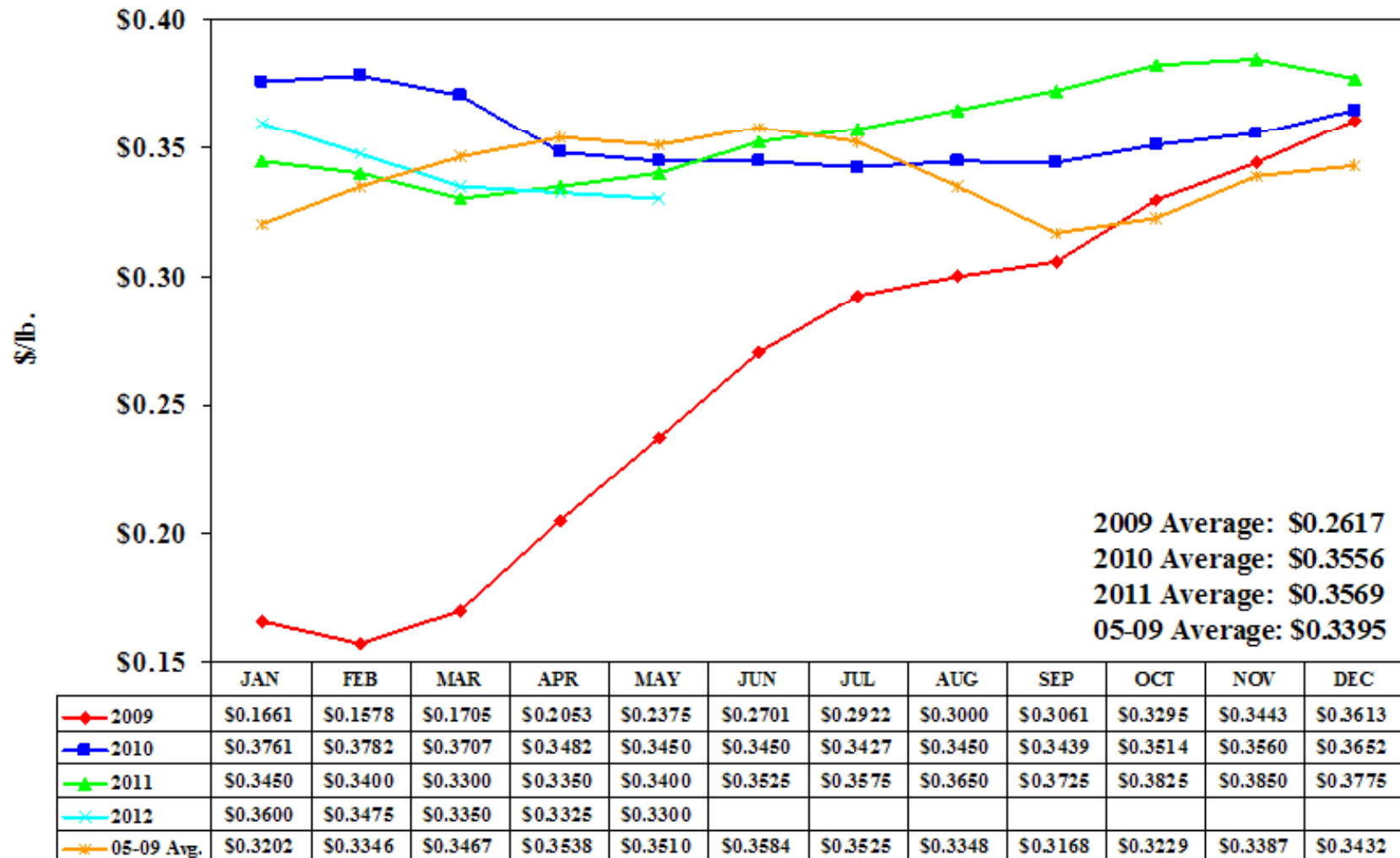
CME Block Cheese Price Actuals & Forecasts



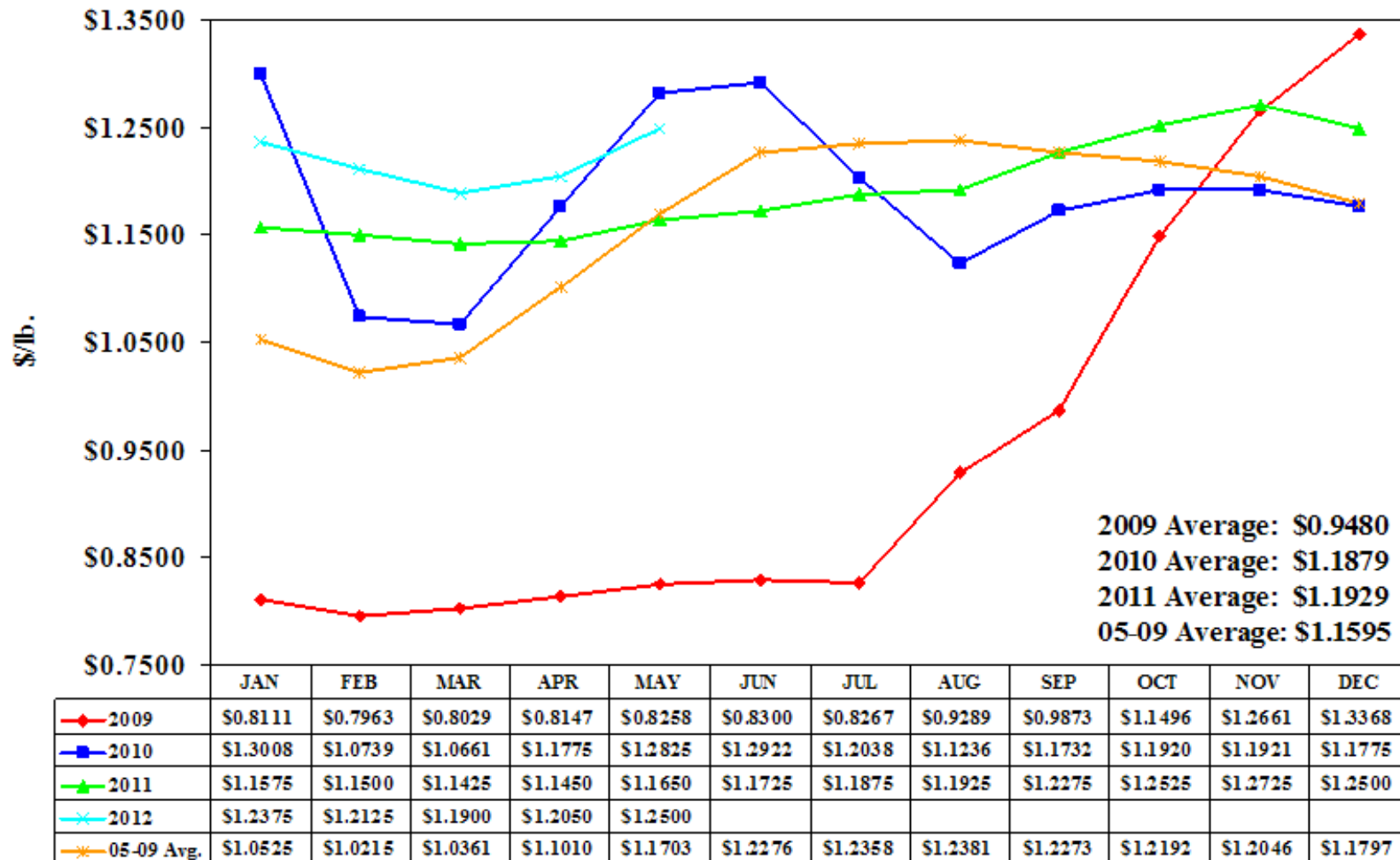
CME Grade AA Butter Price Actuals & Forecasts



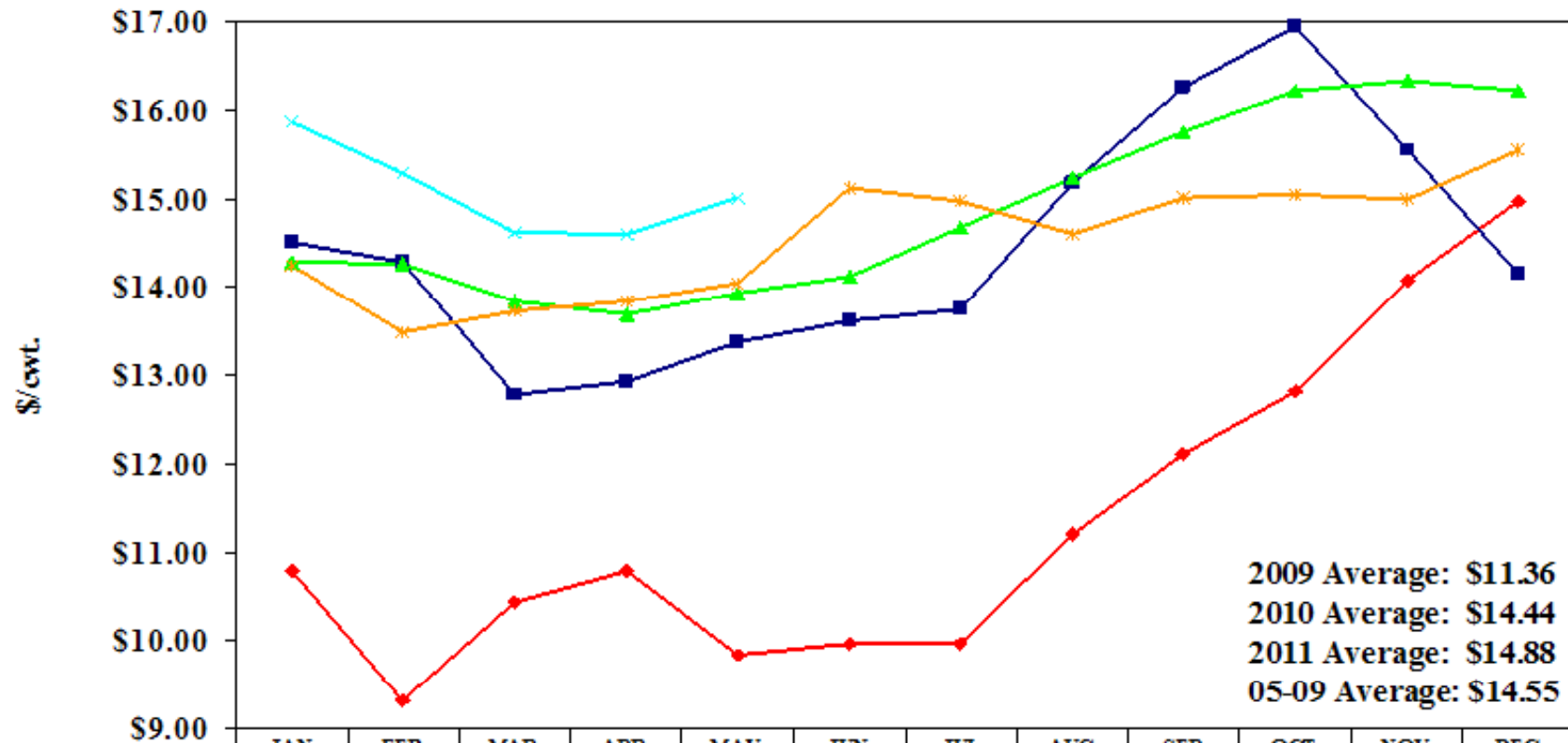
Central Mostly Whey Price Actuals & Forecasts



Western Mostly NFDM Price Actuals & Forecasts

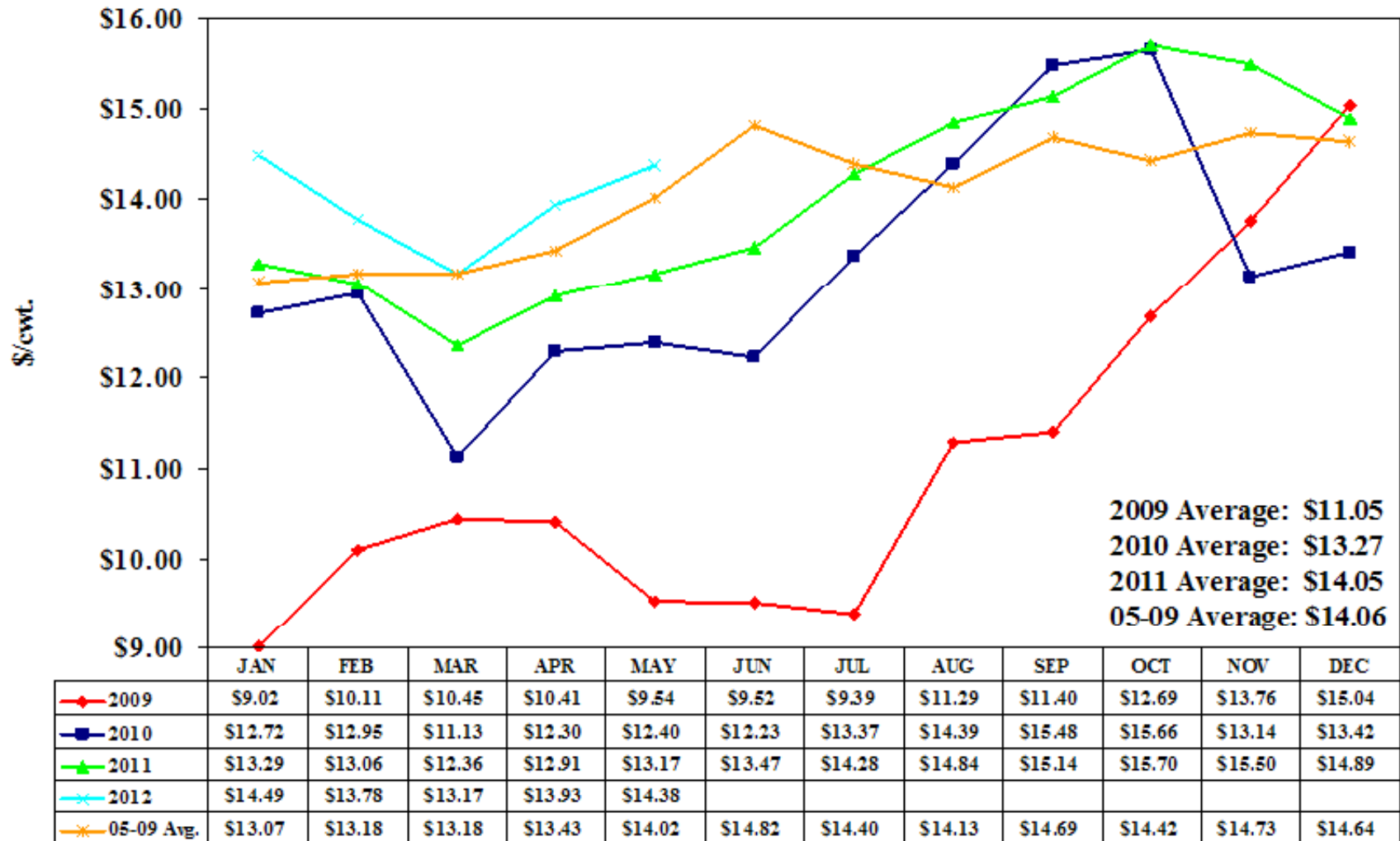


Class III Actuals & Forecasts

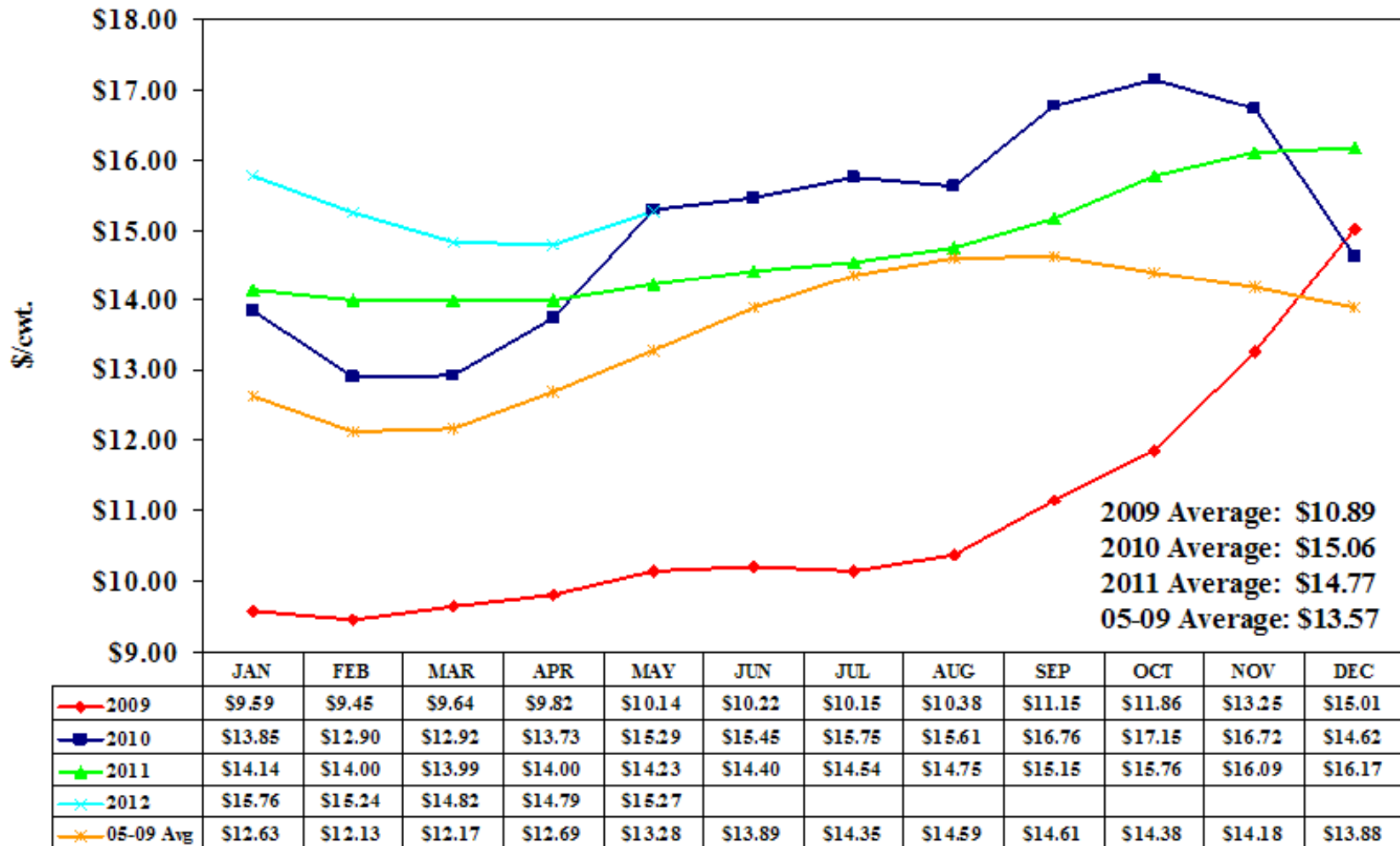


	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
◆ 2009	\$10.78	\$9.31	\$10.44	\$10.78	\$9.84	\$9.97	\$9.97	\$11.20	\$12.11	\$12.82	\$14.08	\$14.98
■ 2010	\$14.50	\$14.28	\$12.78	\$12.92	\$13.38	\$13.62	\$13.74	\$15.18	\$16.26	\$16.94	\$15.55	\$14.15
▲ 2011	\$14.28	\$14.26	\$13.83	\$13.69	\$13.93	\$14.12	\$14.67	\$15.23	\$15.75	\$16.22	\$16.33	\$16.22
× 2012	\$15.86	\$15.29	\$14.62	\$14.60	\$15.01							
✱ 05-09 Avg.	\$14.24	\$13.48	\$13.72	\$13.83	\$14.04	\$15.12	\$14.97	\$14.60	\$15.01	\$15.05	\$15.00	\$15.54

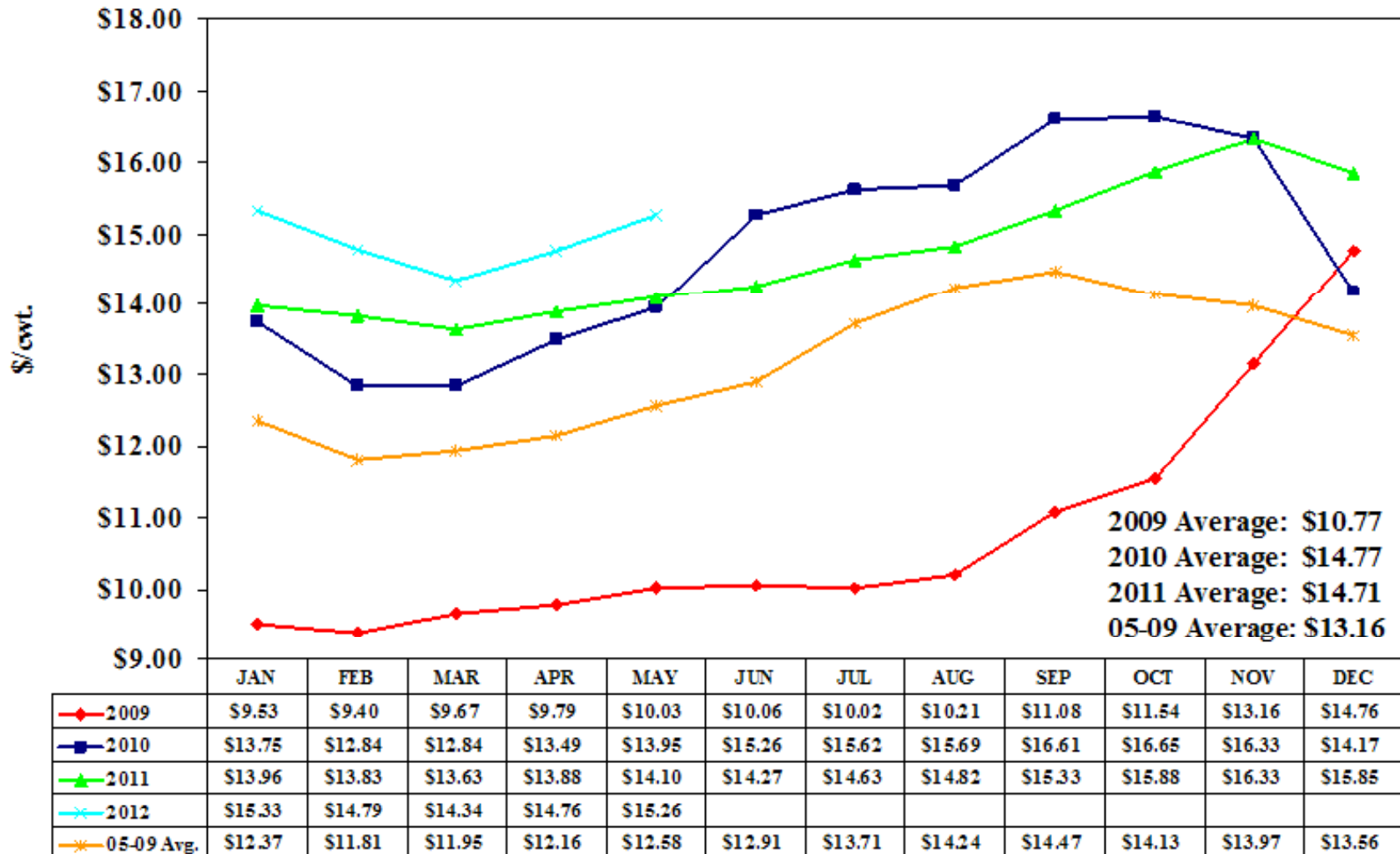
Class 4b Actuals & Forecasts



Class IV Actuals & Forecasts



Class 4a Actuals & Forecasts



Key Indicators to Keep in Focus for 2011

SUPPLY

- Recovery in butter production
- Heavy cheese inventories
- Global Milk Production – Oceania, Europe, US
- US & World Government/Trade Policy
 - US: Farm Bill, Changes in Dairy Pricing?
 - EU: Continue to ease government regulations
 - Export barriers (Russia, China, Mexico)
- Dairy Farm Income Over Feed
 - Will have direct impact on cow Numbers, slaughter rates
- Regional Production Differences
- CWT – Export Assistance ONLY

DEMAND

- Retail/Food Service Demand
 - What impact will high prices have?
- US Dollar Volatility
 - Can accelerate (or shut off) dairy exports
- Global Prices/Demand
 - Global dairy demand outlook positive
 - Fonterra Global Dairy Trade semi-Monthly Auction
 - New Zealand & EU futures exchanges

To Sum It Up...

- Market Volatility will continue and without predictability
- Learning and using these tools to manage margins will be imperative to operating a successful dairy for the long haul
- Ask questions and get started!

The Bottom Line

FC Stone/Downes-O'Neill mission is to deliver bottom line results to our clientele.

Eric Meyer

Downes-O'Neill, a division of FCStone

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Thank you!