Dairy Market Overview

Tom Wegner
Land O'Lakes

Northeast Dairy Leadership

Team Meeting

June 2, 2009

Dairy Market Overview

- Milk Supply
  - Flattening or Contracting
  - Policy Responses
    - CWT VII
    - Nutrition donations, DEIP
- Milk Demand
  - Export Story

How Did We Get Here?

- Oceania milk supply weakened
- World economic growth fueled US exports
- EU discontinued export subsidies
- Weakened $ gave advantage to US
- US herd grew by 300,000 head Jan 05 to Dec 08

EXPORTS GREW TO 10% TO 12%

OF US MILK SUPPLY

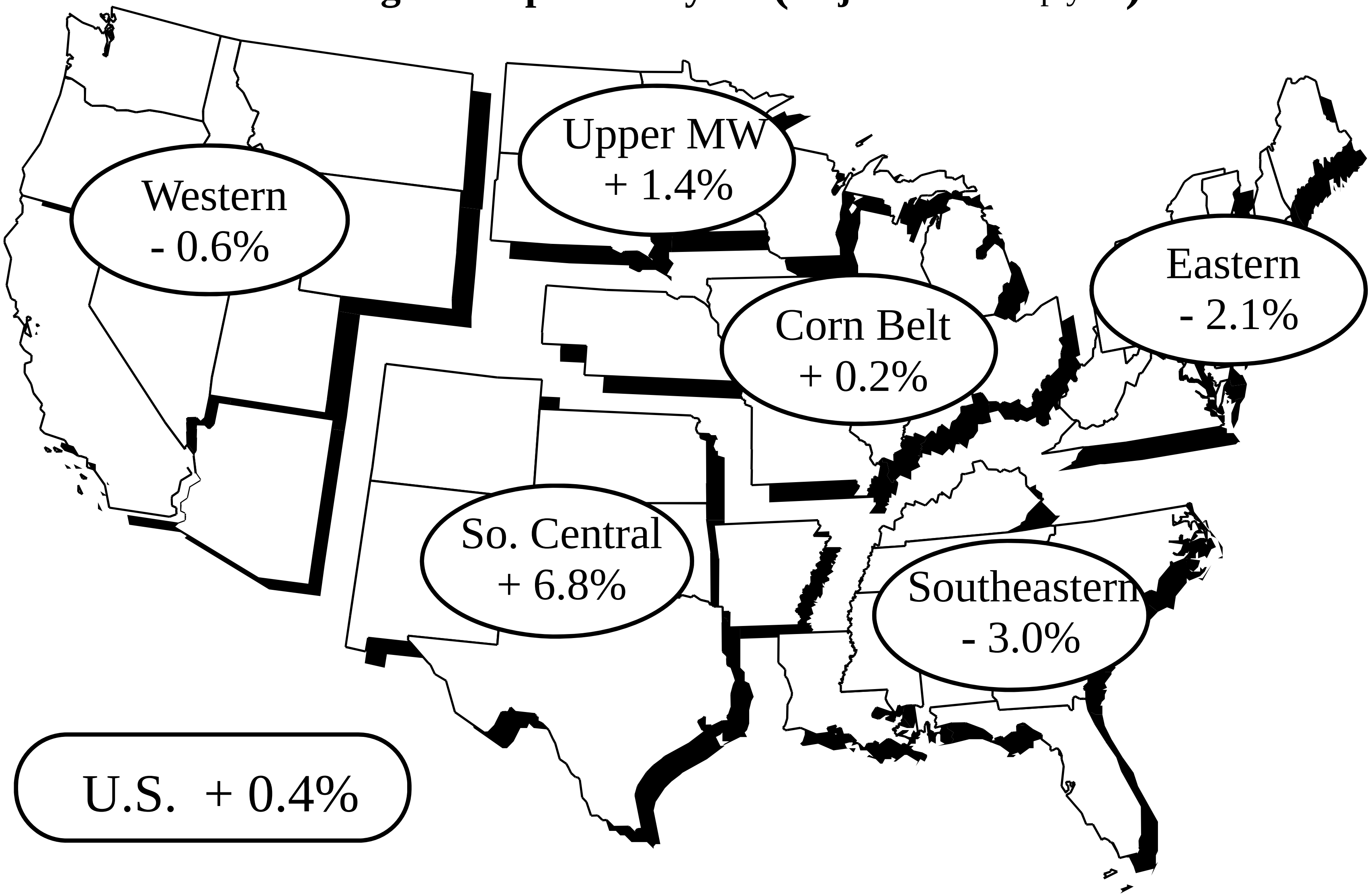
Milk Supply Flattening?

US milk April YTD +0.4%

- Excluding CA
  - Production +0.5% April ‘09
  - Production +0.8% March ’09
- 30,000 fewer cows since Jan ’09 (-0.3%)
- Abundance of heifer replacements available
- Dairy slaughter rates declining yr on yr

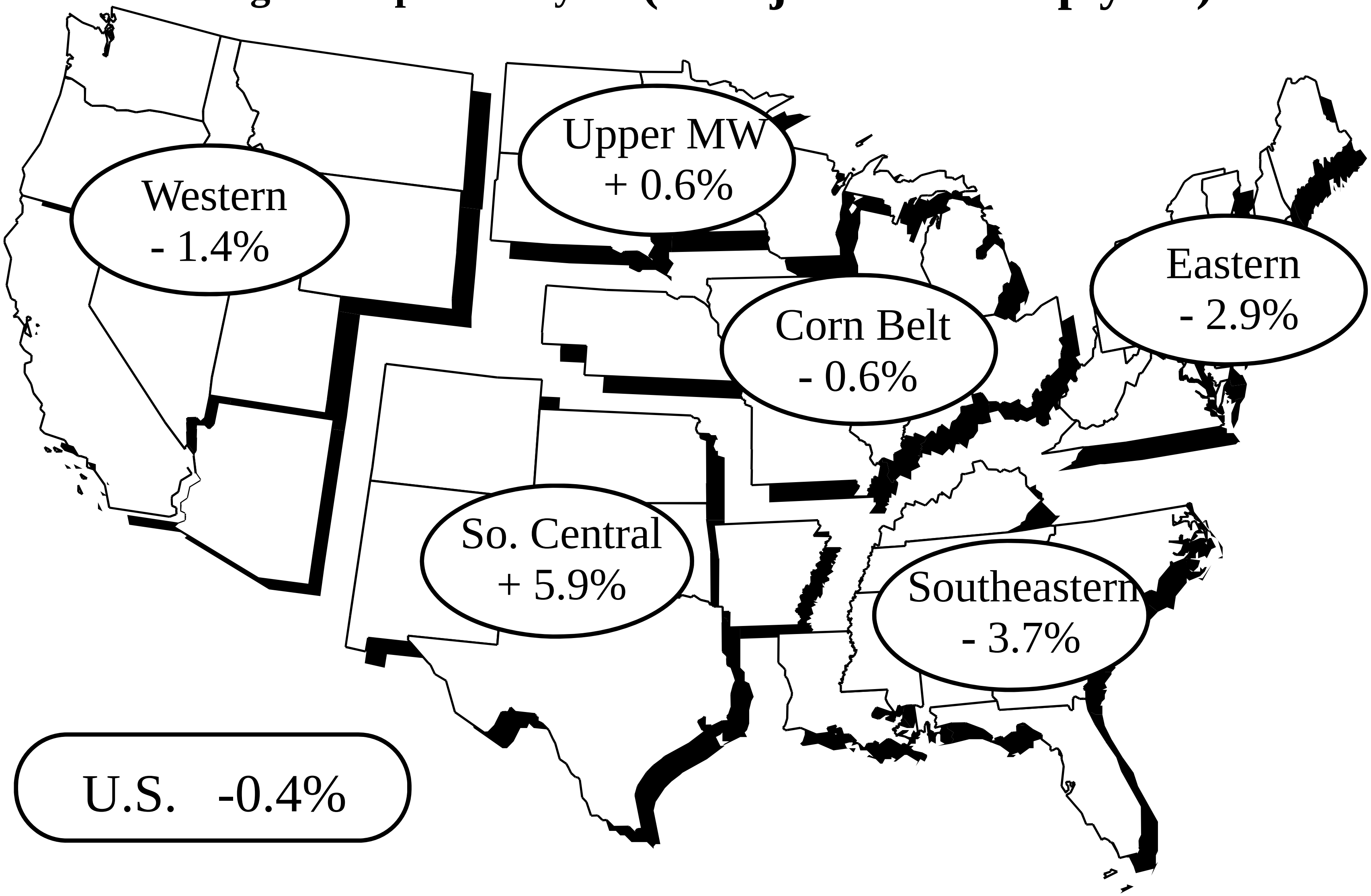
Milk Production, YTD through Apr. 2009

% change from previous year (Adjusted for leap year**)**



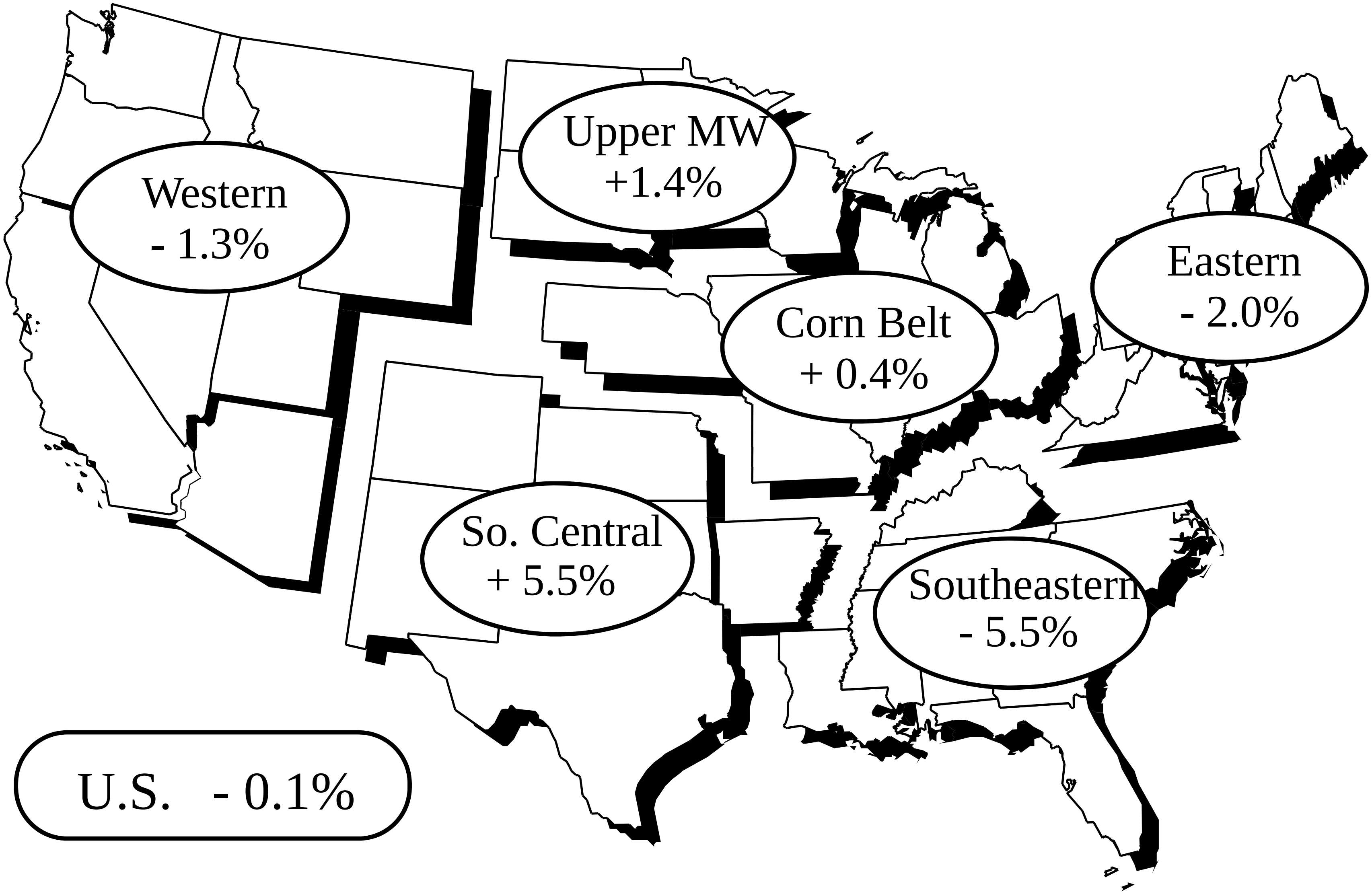
Milk Production, YTD through Apr. 2009

% change from previous year (unadjusted for leap year)



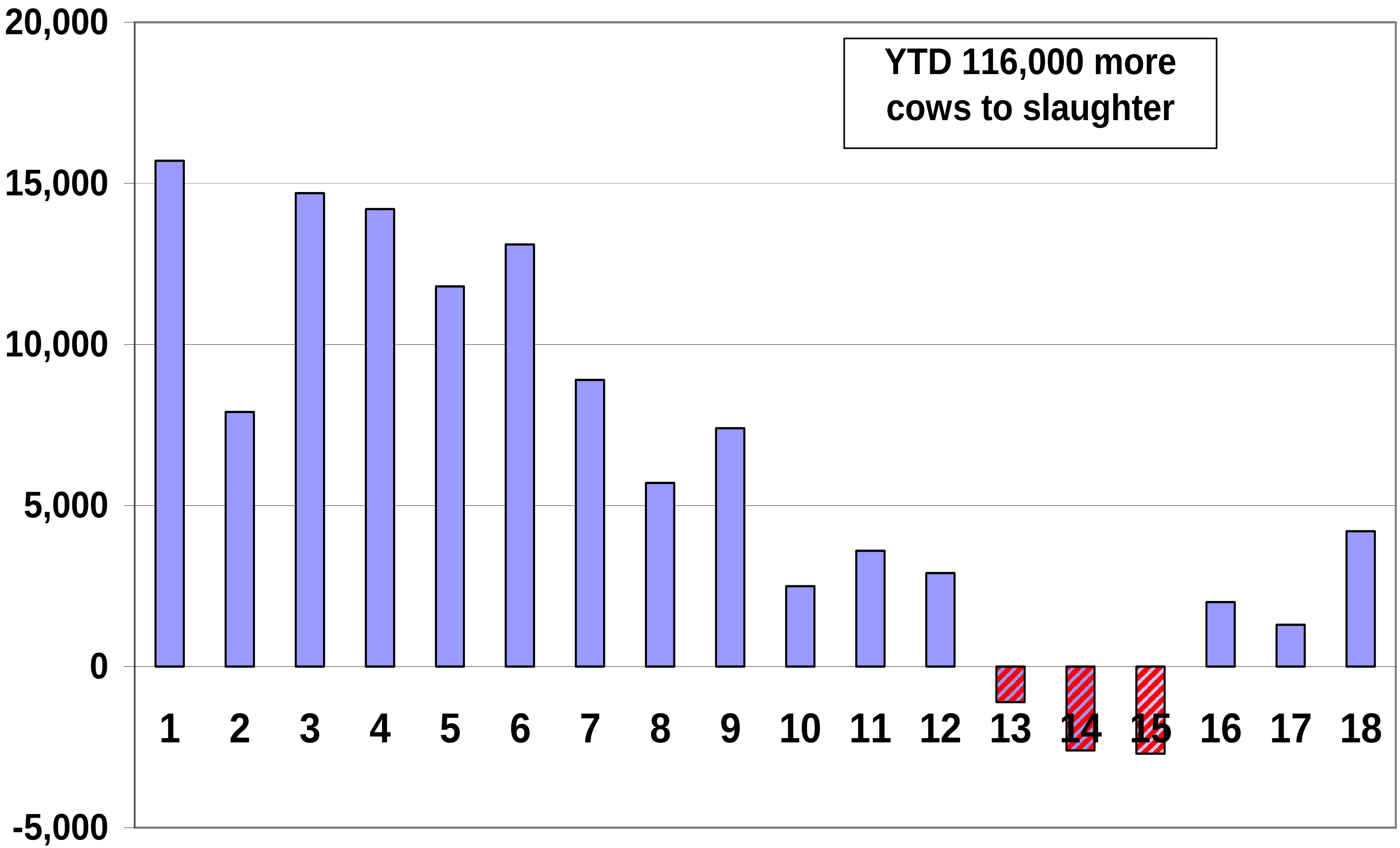
Milk Production, Apr. 2009 vs. Apr. 2008

% change from previous year



Weekly Dairy Slaughter Ahead of 2008

(2009 v 2008)



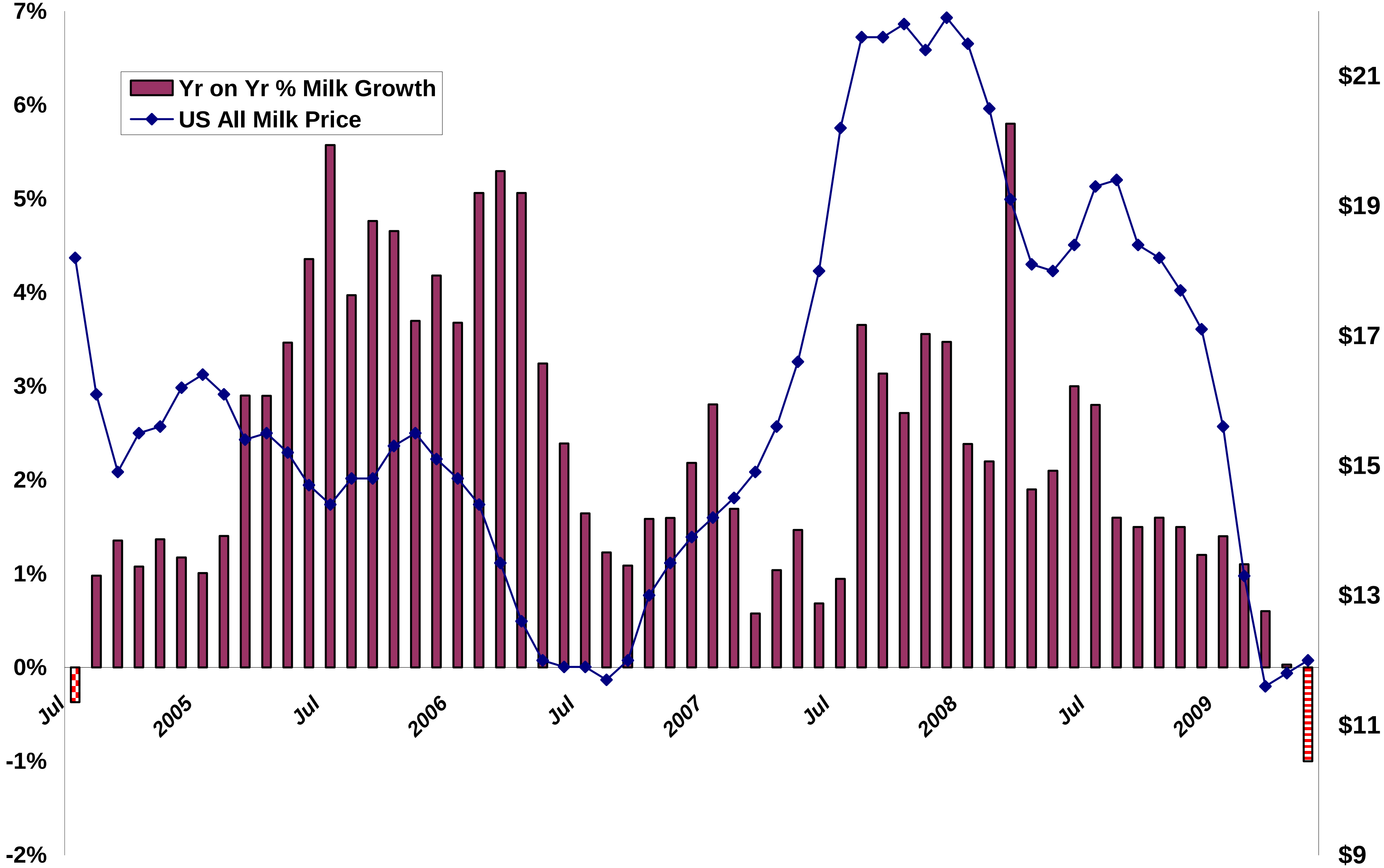
Milk Supply Contracting?

US milk production growth turning

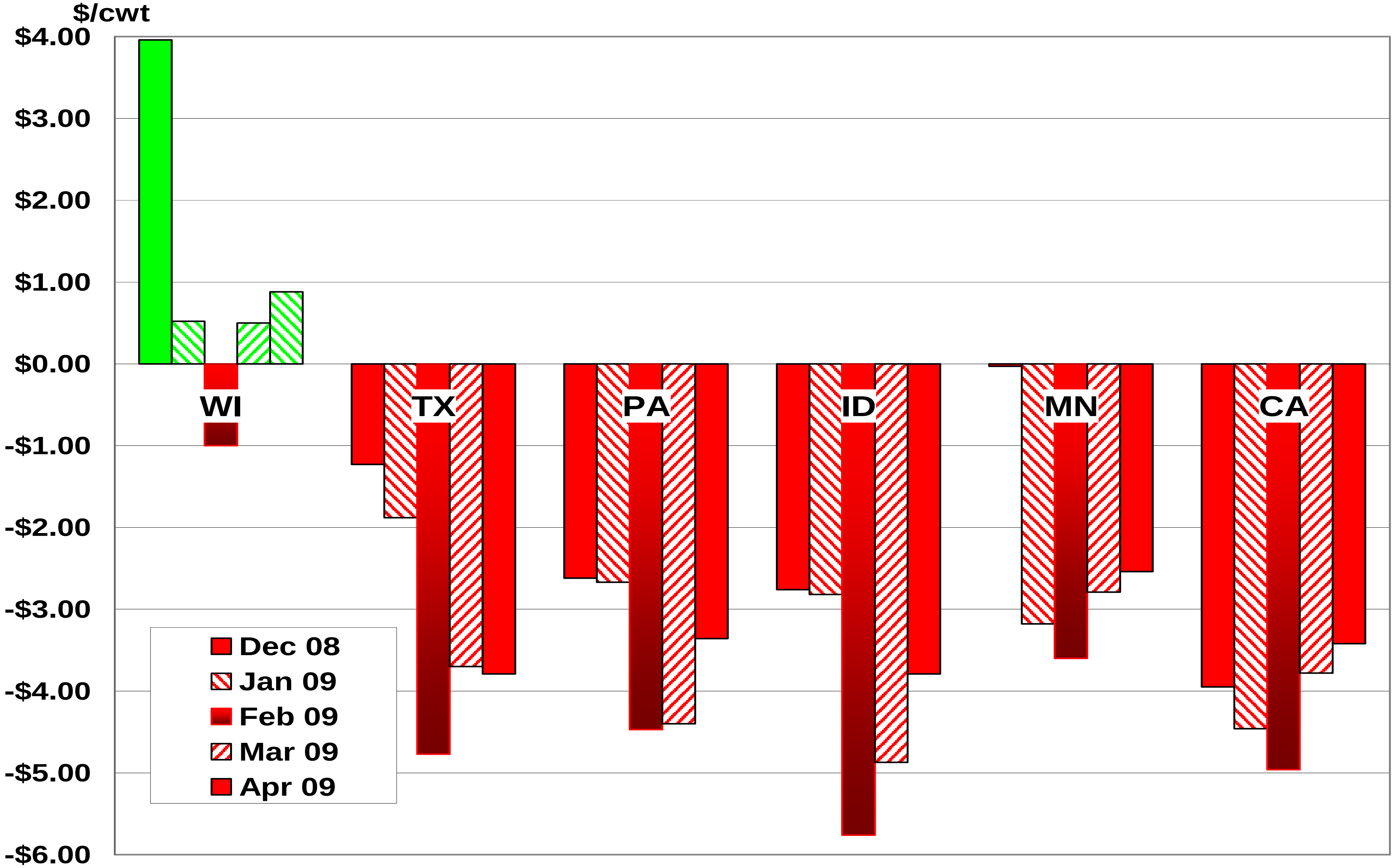
- Jan +1%, Feb +0.7%, Mar NC, April -0.1%
- California decreasing nine of ten months

- CWT removing 103,000 cows

Milk Supply Expansion of 57-Months Ends



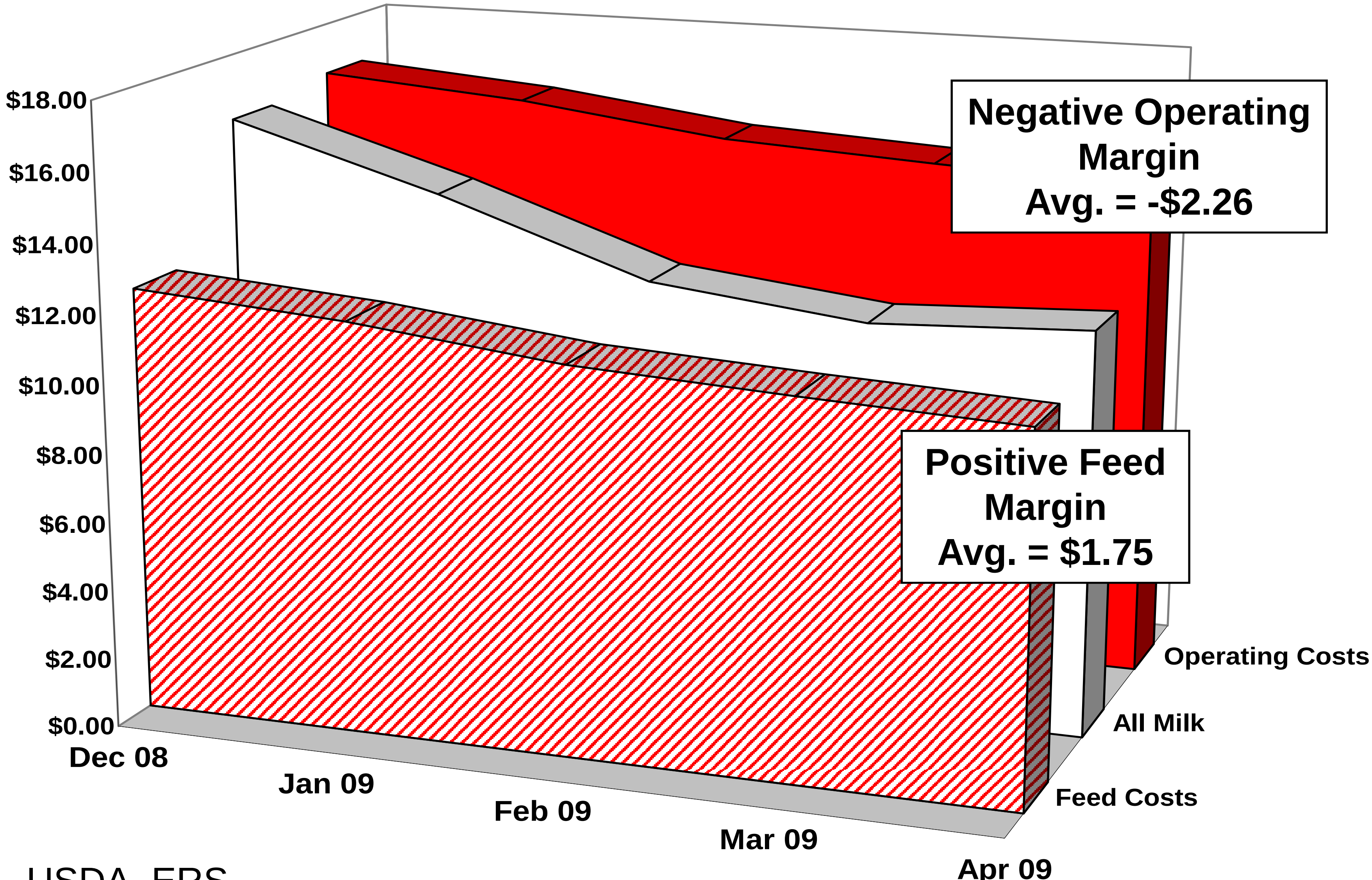
ALL US Dairy Regions Have Experienced Negative Margins



USDA, ERS

NY Feed & Operating Margins

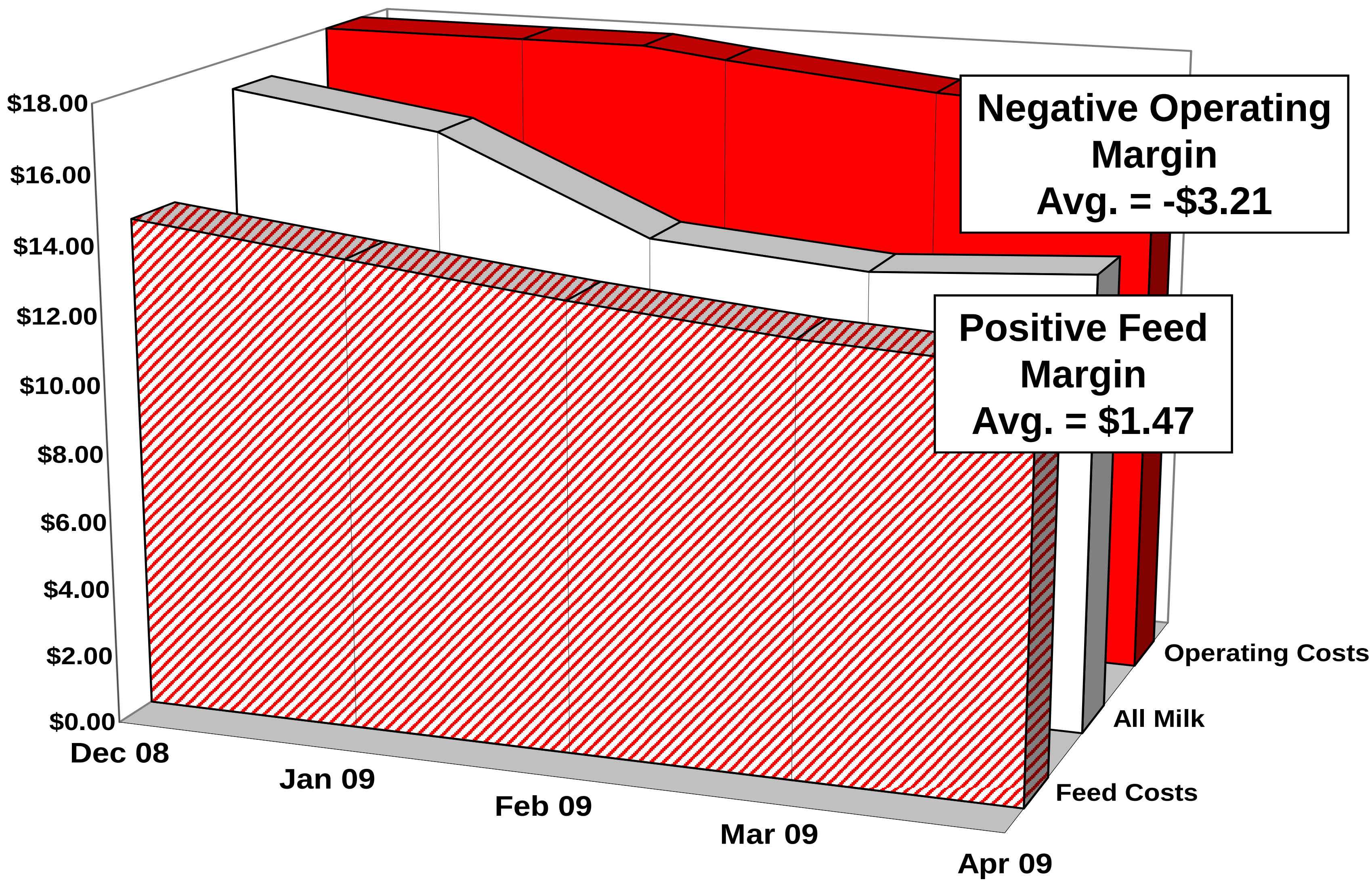
Dec 08 thru Apr '09



USDA, ERS

PA Feed & Operating Margins

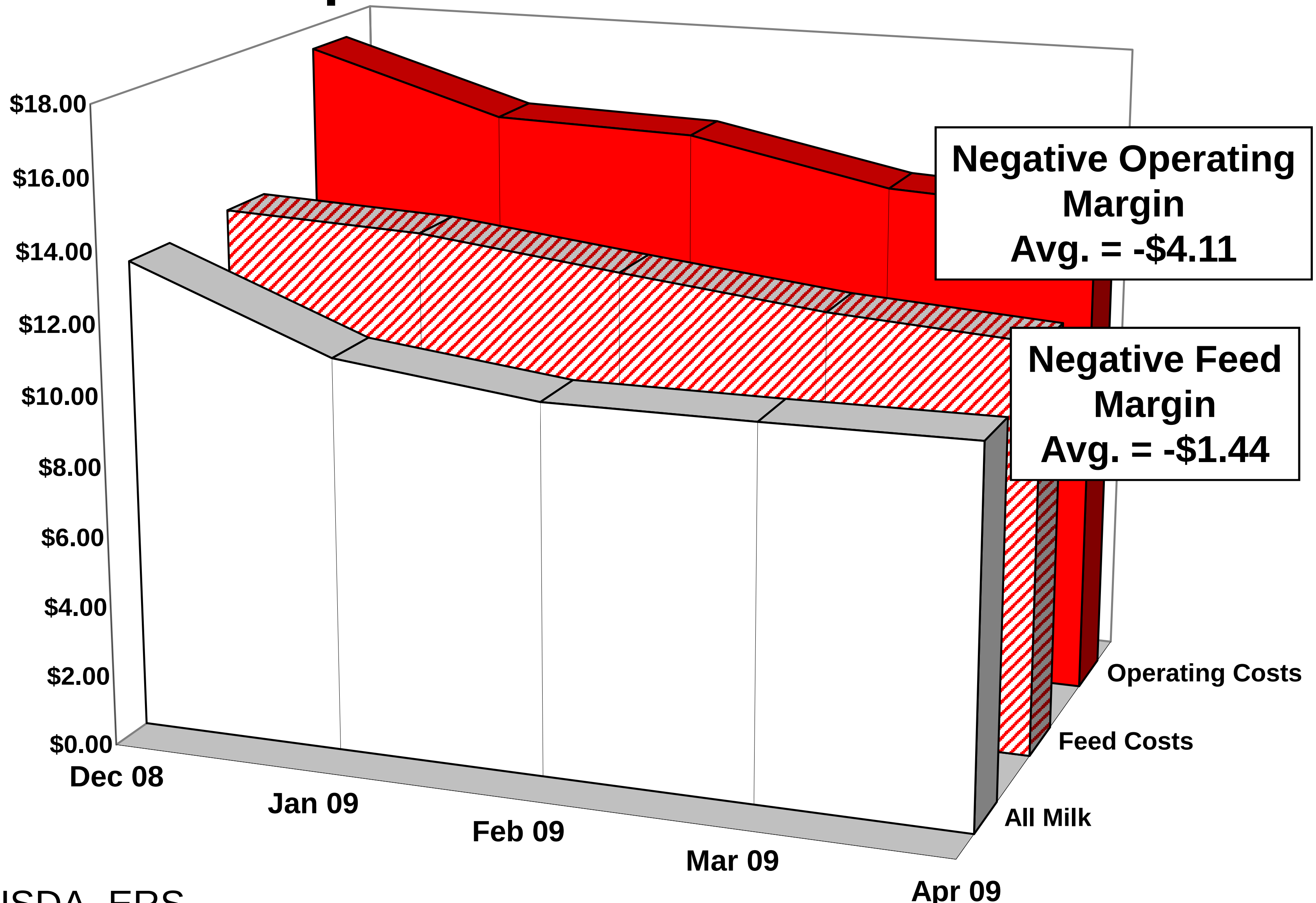
Dec 08 thru Apr '09



USDA, ERS

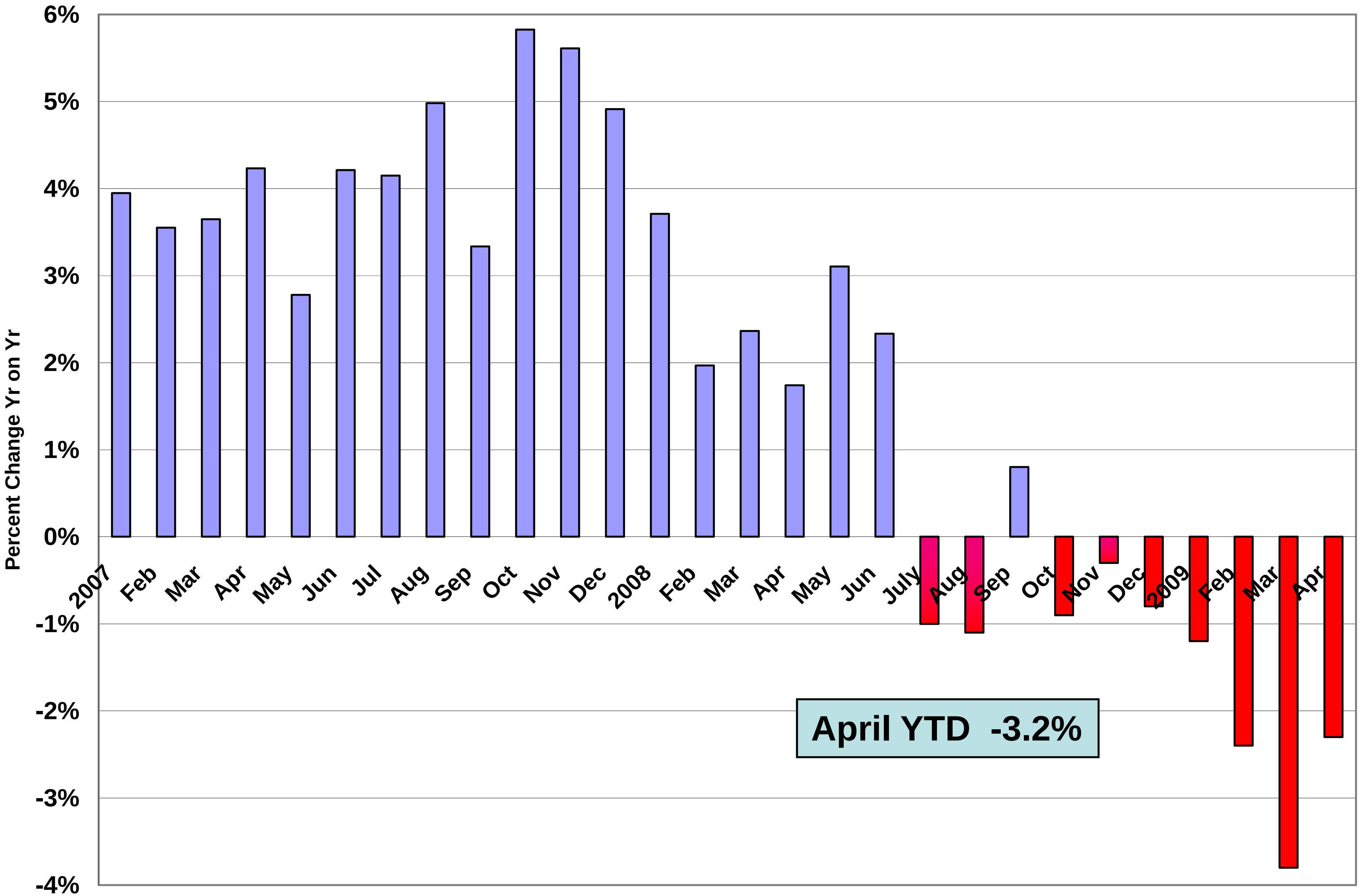
CA Feed & Operating Margins

Dec 08 thru Apr '09



USDA, ERS

California Milk Production Decreasing Dramatically



Recent CWT Herd Retirements

	2008 (1)	2008 (2)	2009
Bids accepted	203	184	388
Total cows	24,860	61,078	102,898
Cows Per bid	122	332	265

Recent CWT Herd Retirements

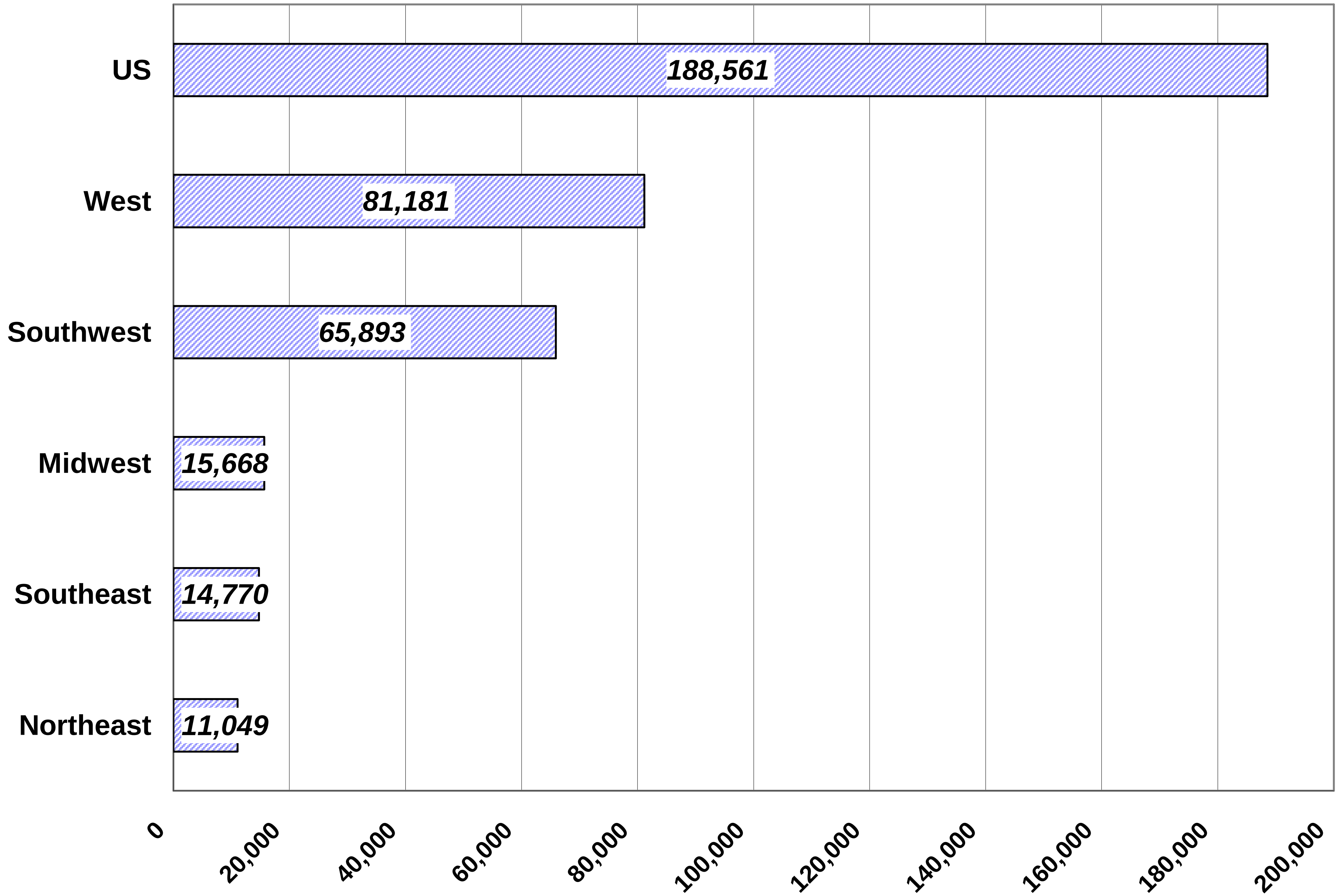
	2008 (1)	2008 (2)	2009
Total milk (mil lbs)	436	1,206	2,000
Milk per cow	17,538	19,745	19,436
Avg. bid	$6.10	$6.49	?

Overview of CWT VII

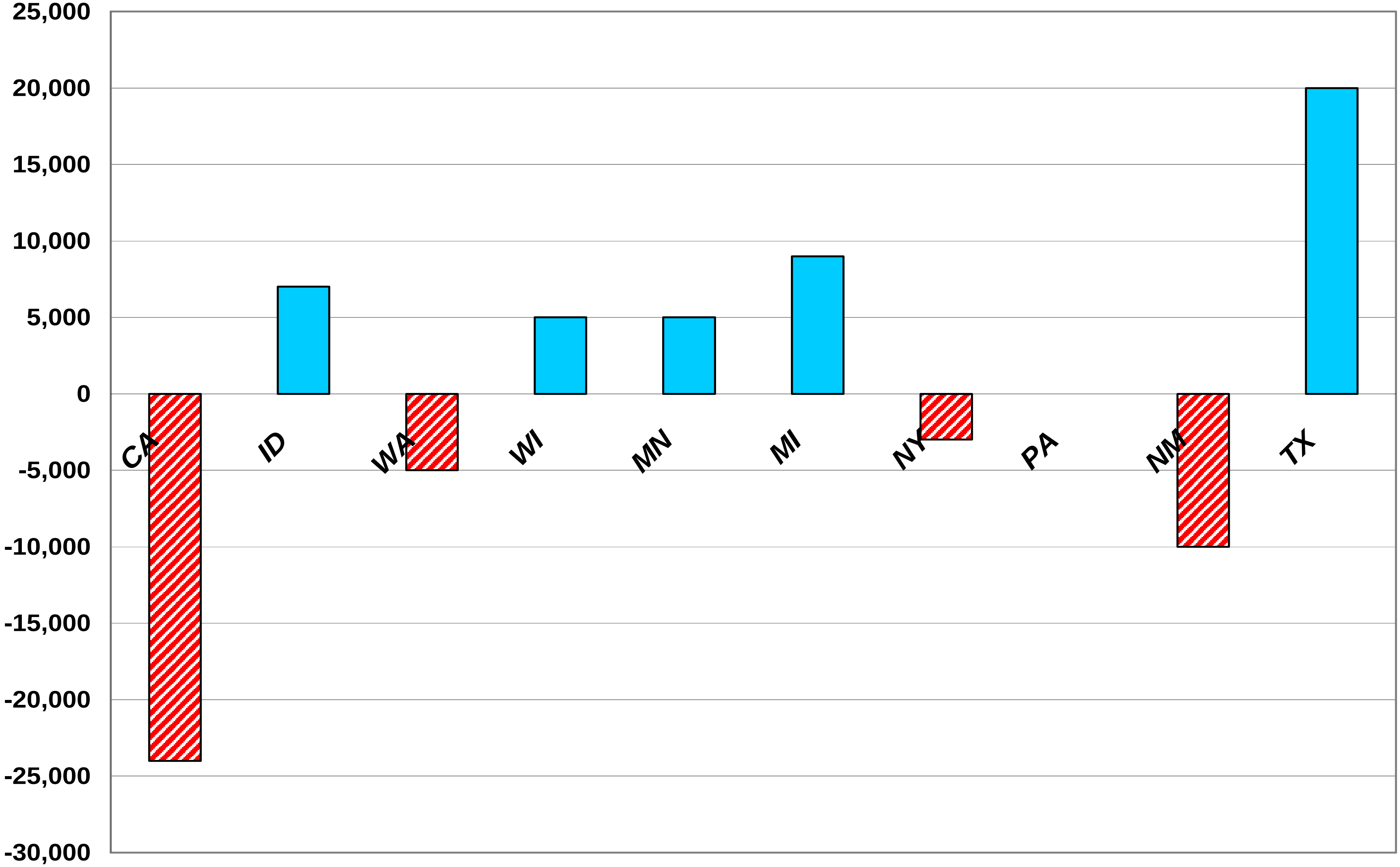
	Northeast	Southeast	Midwest	Southwest	West	Total
Cows Accepted	**5,156**	**7,042**	**8,595**	**43,607**	**38,498**	**102,898**
Bids Accepted	**42**	**56**	**134**	**68**	**88**	**388**
Avg. Herd Size	**125**	**125**	**65**	**650**	**440**	**265**
% Total Cows	**5%**	**6%**	**8%**	**43%**	**38%**	**100%**
% Regional Herd	**0.4%**	**1.2%**	**0.3%**	**3.3%**	**1.3%**	**1.1%**

Total Cows Accepted CWT 2008-09

Aug ’08 to May ‘09



Change in Cow Numbers Apr ’09 v Apr ’08
Ten Top Dairy States



US Milk Supply to Contract in 2009-10

USDA estimates

– ↓1.2% 2009

– ↓0.5% 2010

- 2008 production 190.0 B lbs
- 2009 (est.) 187.7 B lbs
- 2010 (est.) 186.6 B lbs

Milk Demand Factors

Decreasing Exports Weakening US Milk Prices

2008 US exports (actual)	20.7 (B) pounds
2009 (projected YTD)	15.2 (B)
Net Pounds Added 'Back' to US Domestic Market	5.5 (B)
Equivalent Production Increase	↑2.9%

1) 5.5 B lbs ~ 270,000 cows

2) NMPF est: 6.5 B lbs ~ 325,000 cows

LAND O'LAKES, INC.
growingtogether

CCC Purchases
(10/1/08 thru 5/29/09)

NFDM

- 240 mil. pounds
- 200 mil. pounds to nutrition
- Barter 50 mil. pounds for cheese

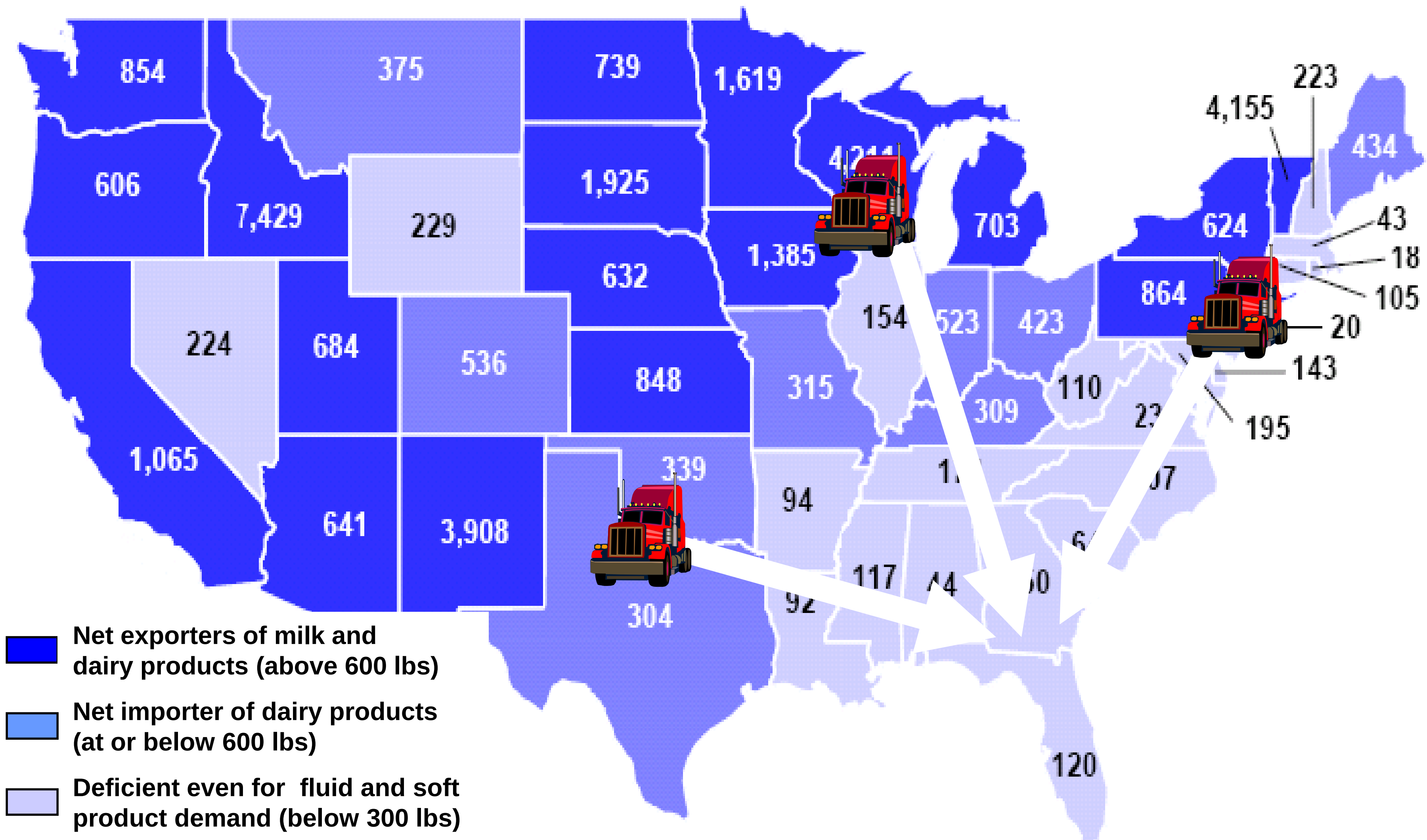
Butter

- 4.6 mil. pounds
- 4 mil. pounds offered for sale

DEIP Reinstated

- WTO compliant
  - 150 mm lbs NFDM
  - 46 mm lbs butter
  - 7 mm lbs cheese
- DEIP more cost effective than CCC
- Zero sum tactic

East, UMW & SW Compete for SE Fluid Markets
(2006 Per Capita Production)



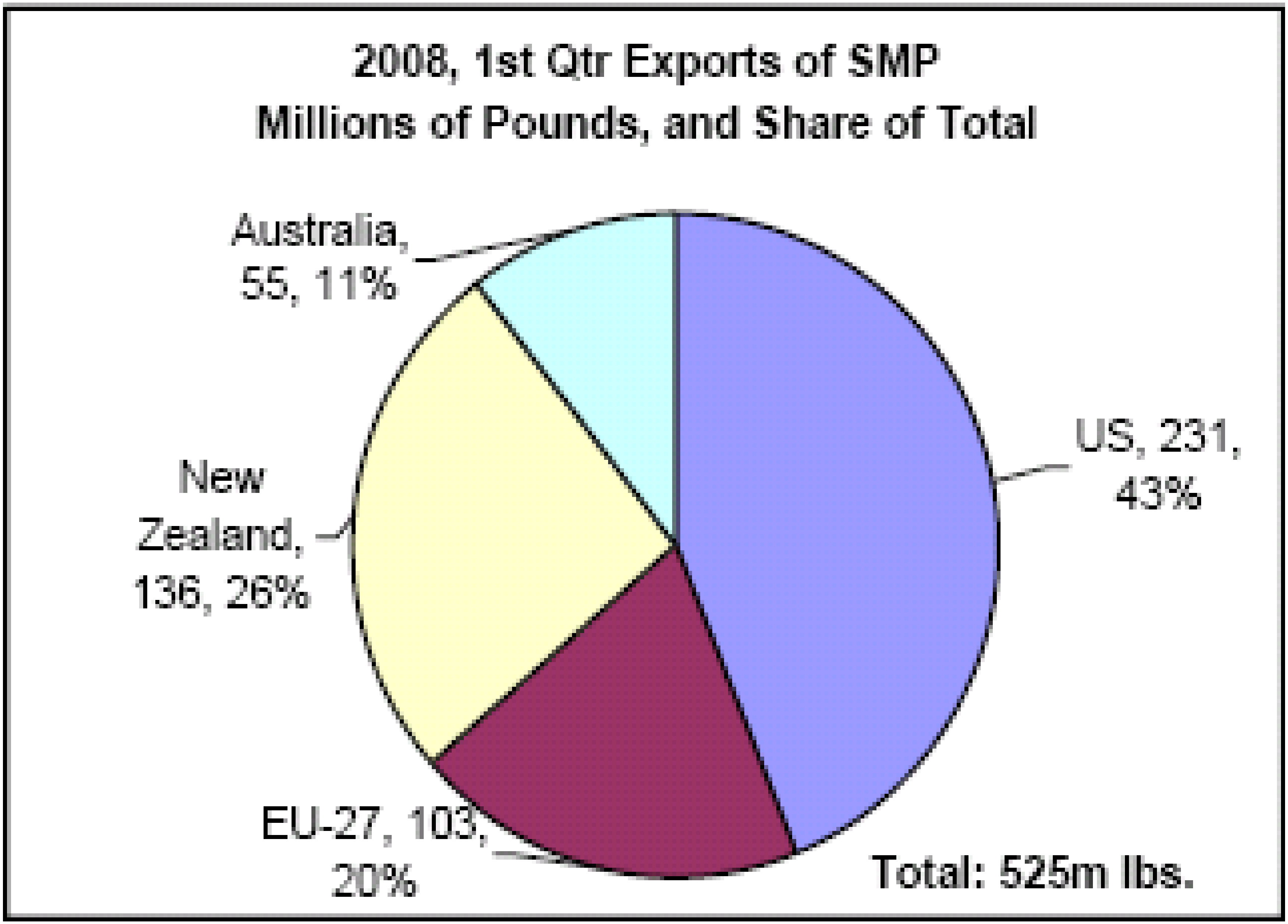
CWT VII Will Move Milk Markets Toward Balance in 2nd Half 2009

2008 US exports (actual)	20.7 (B) pounds
2009 US exports (projected YTD)	15.2 (B)
CWT Buyout VII (removing 103,000 cows)	2.1 (B)
Net Pounds Added 'Back' to US Domestic Market	3.4(B)
Equivalent Production Increase	↑1.8 %

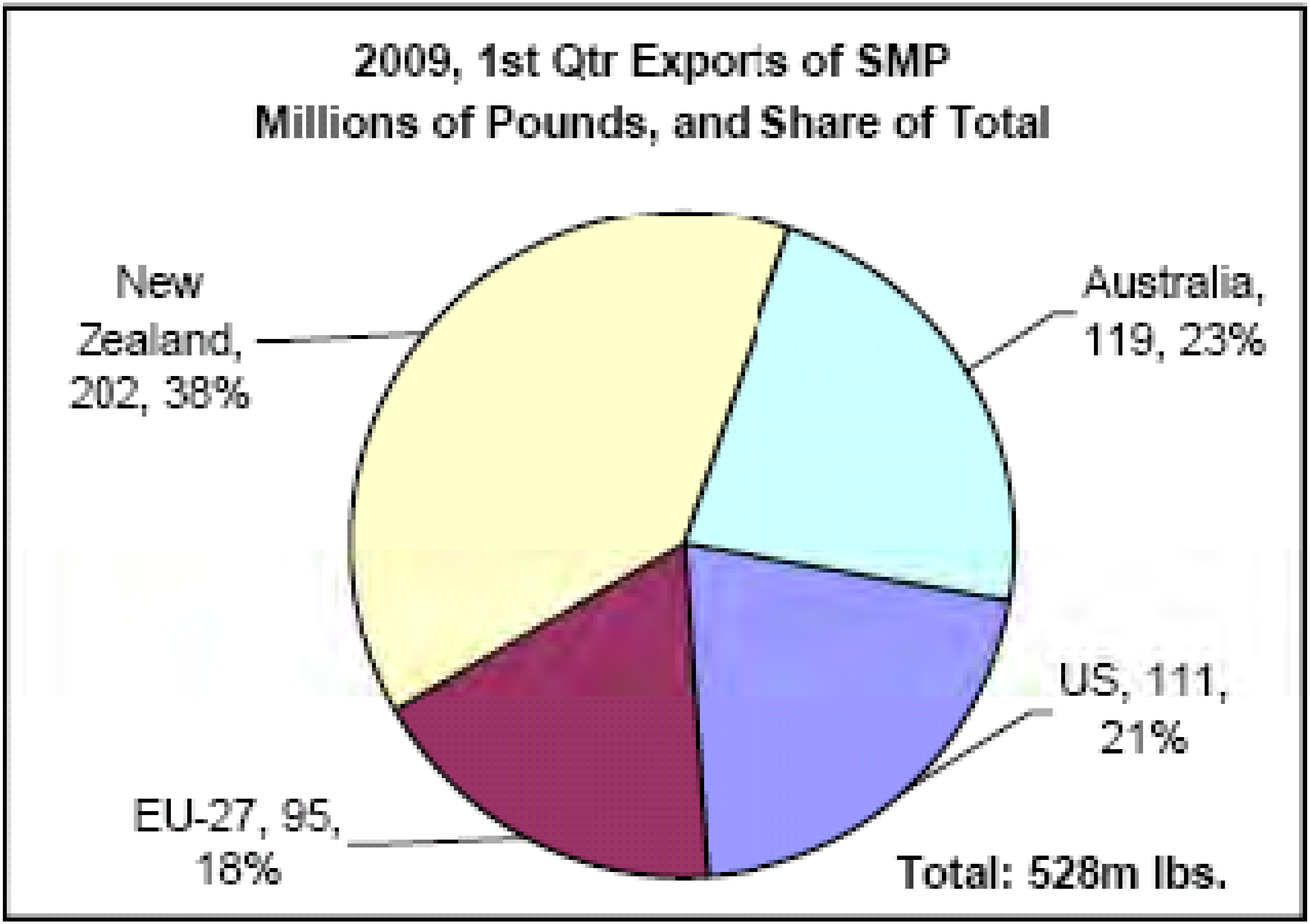
LAND O'LAKES, INC.
growingtogether

US Dairy Exports Down (YTD March '09)

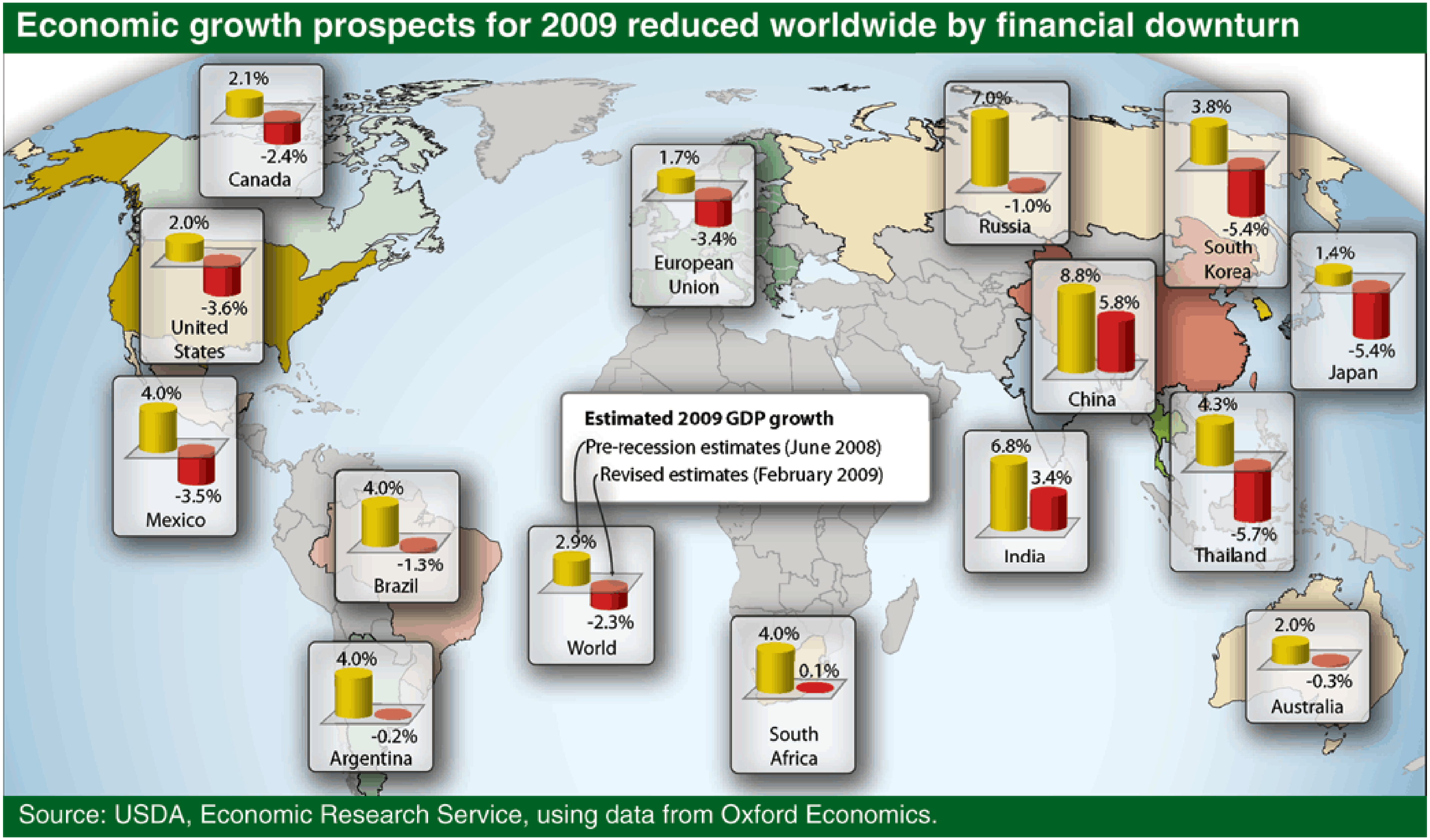
- Butter ↓ 84%
- NFDM ↓ 52%
- Cheese ↓ 26%
- Whey ↑ 19%



Informa Economics



Informa Economics



China Q1 Growth +6.1%

Mexico Q1 Growth -8.2%

Domestic Market Turning?

- Dairy CPI down April (v March '09)
  - All dairy products ↓1.3%
  - Whole milk ↓0.9%
  - Cheese ↓2.5%
  - Butter ↓7.1 %
- Fluid consumption trending up
  - Jan +0.3%, Feb +2.1%, Mar +2.6%
  - Five straight months increasing
  - Seven of last eight months increasing

US Consumers Responding to Lower Dairy Prices

- **Commercial Disappearance Mixed**

  (Mar '09 v Mar '08)

  - **NFDM -12.3%**
  - **Butter +0.3%**
  - **American Cheese +9.0%**
  - **Other Than American +1.8%**
  - **Fluid Milk (March YTD) +1.6%**

LAND O'LAKES, INC.
growingtogether

Where Are We Headed?

- Global recession: falling incomes decreasing demand
- Low prices global customers return to dairy
- Melamine tragedy curbed China demand
- Oceania milk supply recovery
- EU reinstates export subsidies
- Strengthening US $
- High US dairy product prices slowed consumption

EXPORTS SHRINKING TO 5% TO 7% OF US MILK SUPPLY

Shorter Price Trough?

1. **Lower dairy prices boost sales**
   - Domestic consumption comes back
   - Lower energy costs encourage consumption
2. **US herd contracts faster**
   - 7^{th} CWT retirement
   - Herds culled

Shorter Price Trough?

4. **Global milk supply flat**
   - EU mixed; NZ +7.5%; Aus flat
5. **Global inventories drawn down**
   - USDA 200mm lbs NFDM to nutrition
   - DEIP reinstated
6. **Exports demand recovers**
   - Increased whey exports to MX
   - China buying WMP

Month	CME Futures*	Advisors	
	Class III	Class III	Class 4b
Jun ‘09	$ 10.23	$ 9.93	$ 9.79
July	11.22	10.75	10.90
Aug	12.60	12.11	12.12
Sept	13.88	12.83	12.79
Oct	14.50	13.65	13.67
Nov	14.89	14.53	14.39
Dec	15.21	14.20	13.34

*June 1, 2009

2009 Annual Price Projections

	2008 Annual Average	Advisors	PSU	FAPRI	USDA
Class III ($/cwt)	$17.44	$11.59 to $11.81	$12.13	$11.78	$10.80
Block Cheese	$1.89	$1.33 to $1.35	$1.40	$1.32	$1.27

2009 Annual Price Projections

	2008 Annual Average	PSU	Advisors	FAPRI	USDA
Butter	$1.23	$1.26	$1.27	$1.29	$1.21
NFDM	$1.23	$0.89	$0.87	$0.91	$0.85

Major Factors Impacting Dairy Prices

US Milk Production > = < Dairy Demand

US Milk Production >

- **Negative Producer Margins**
- **CWT Round VII**
- **MILC Payments**
- Dairy Slaughter
- Replacement Heifers
- Culling Rates
- Ethanol
- rbST
- Cloning
- BSE
- Sex Semen
- Canadian Border
- Animal Well Being
- Weather

< Dairy Demand

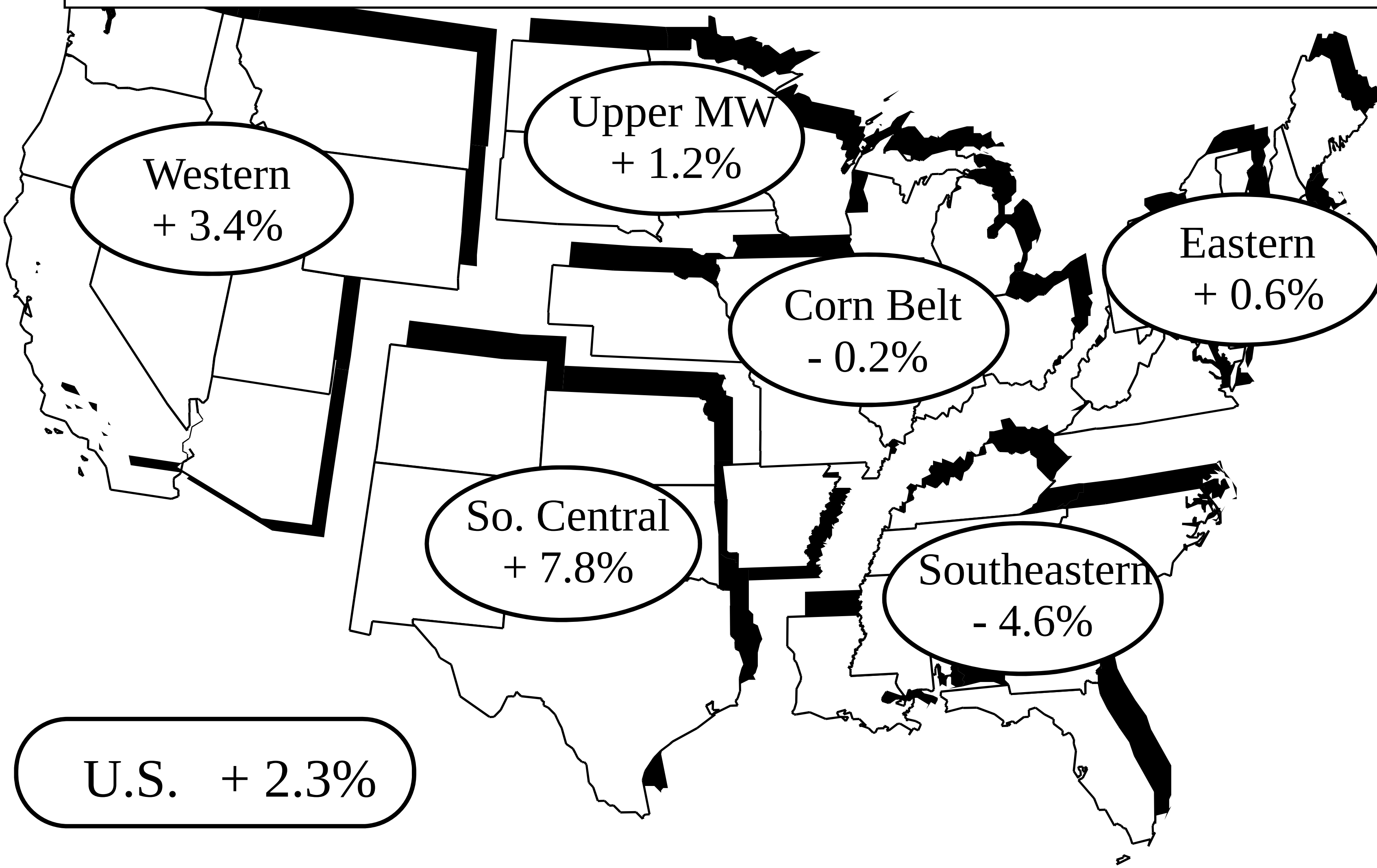
- **Global Economic Recovery**
- **Domestic Demand**
- **Australian & New Zealand Supply Recovery**
- **Protectionist Measures**
- **Value of Dollar**
- **DEIP**
- WTO
- Developing Countries
- World Weather Patterns
- CCC Purchases
- EU Export Subsidies
- Import Tariffs

Questions, Comments

Annual Milk Production – ‘08 vs. ‘07

% change from previous year

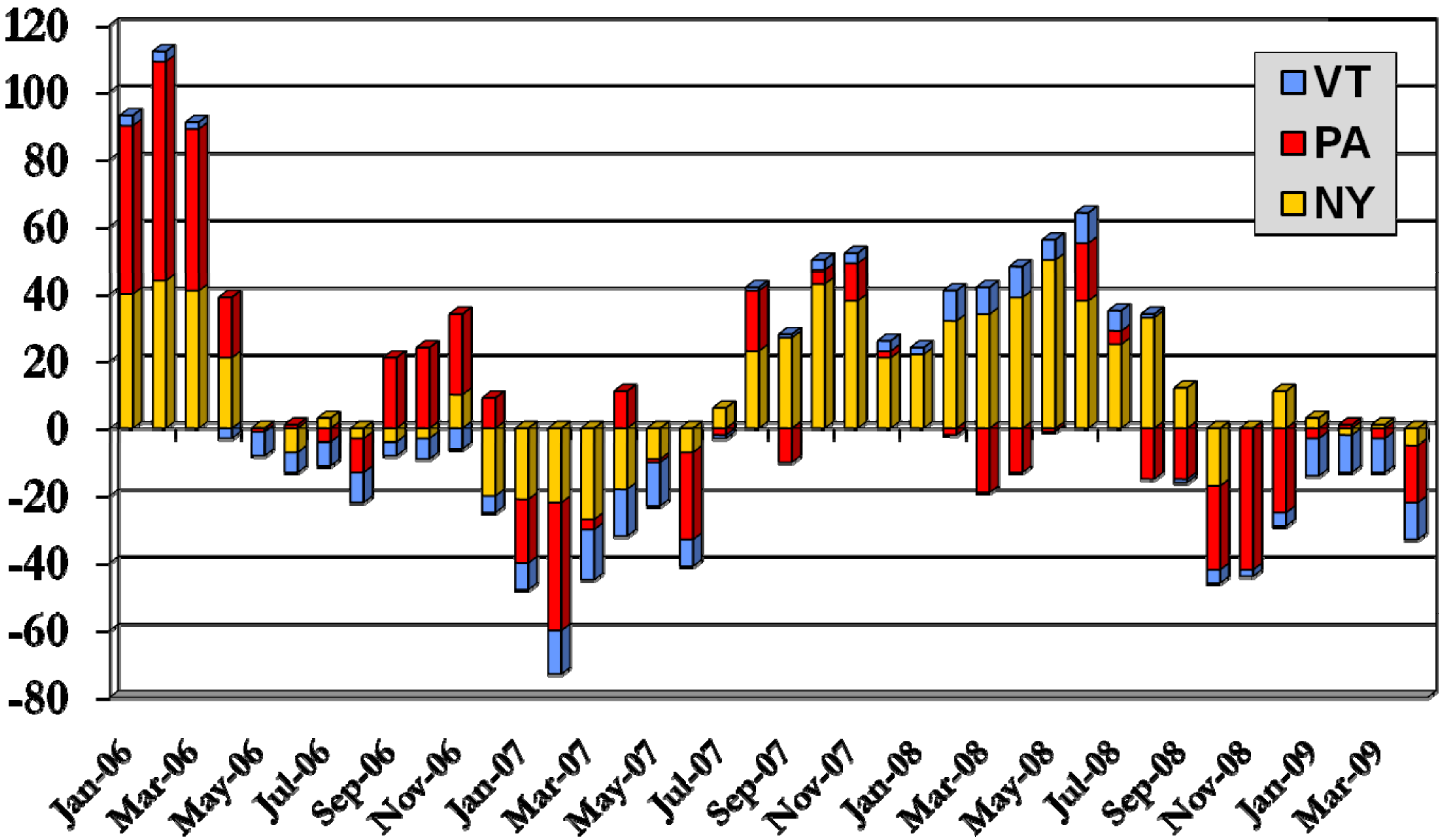
240 more tankers hauled 11.7 million additional pounds every day



- Low milk prices
- High production costs
- Negative margins

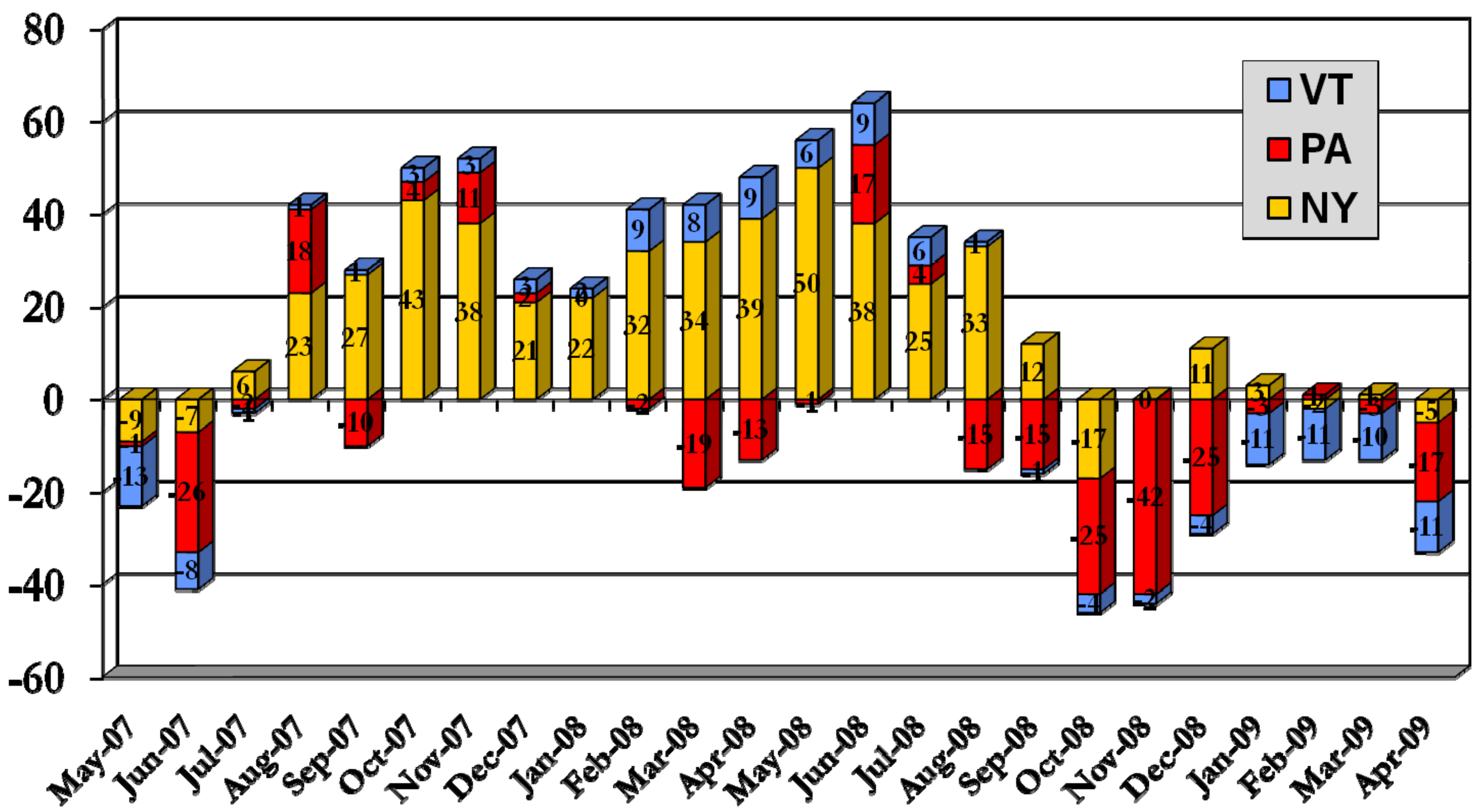
Northeast Milk Production

Millions of Pounds This Year Compared to Last Year



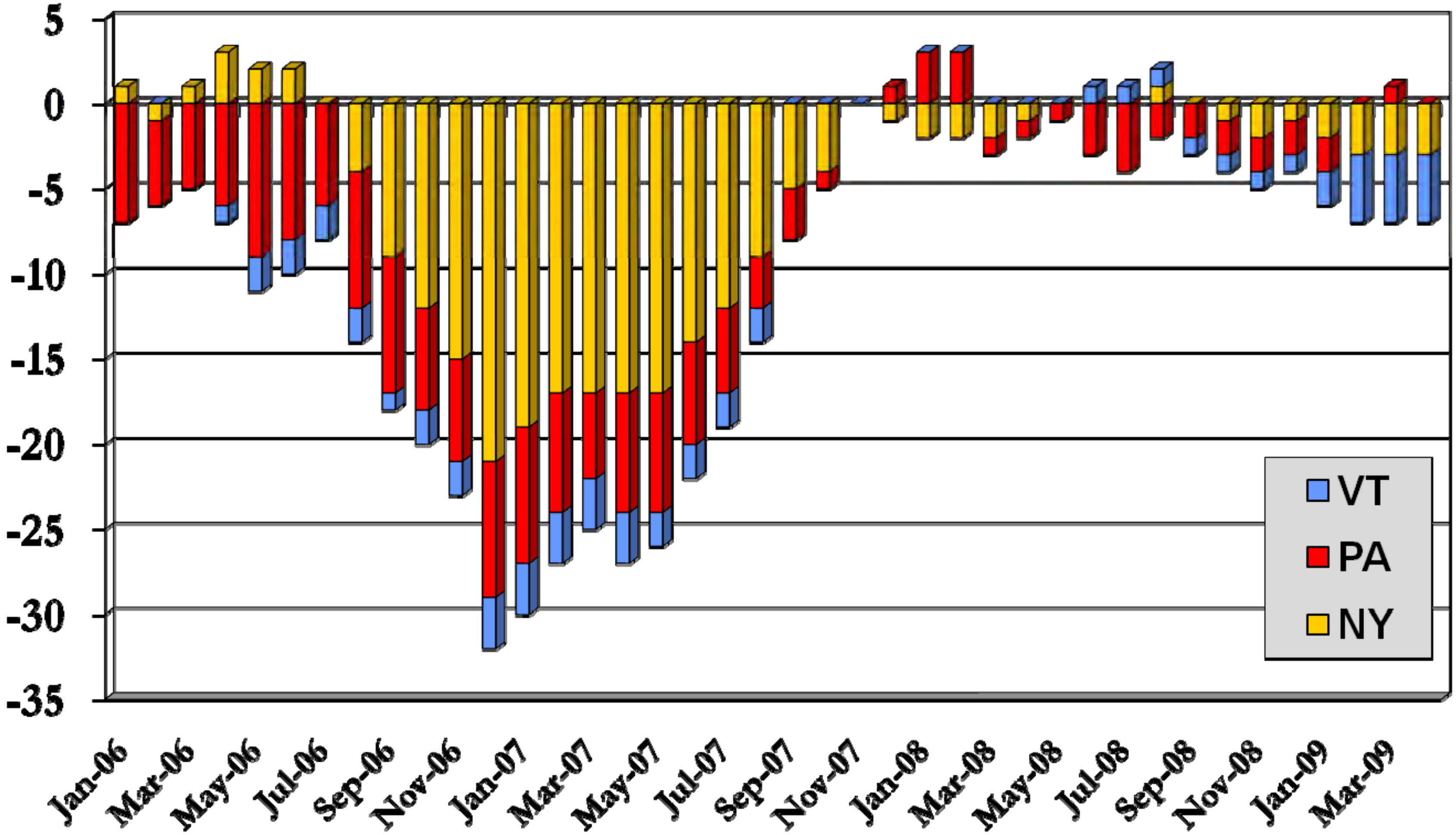
Northeast Milk Production

Millions of Pounds This Year Compared to Last Year



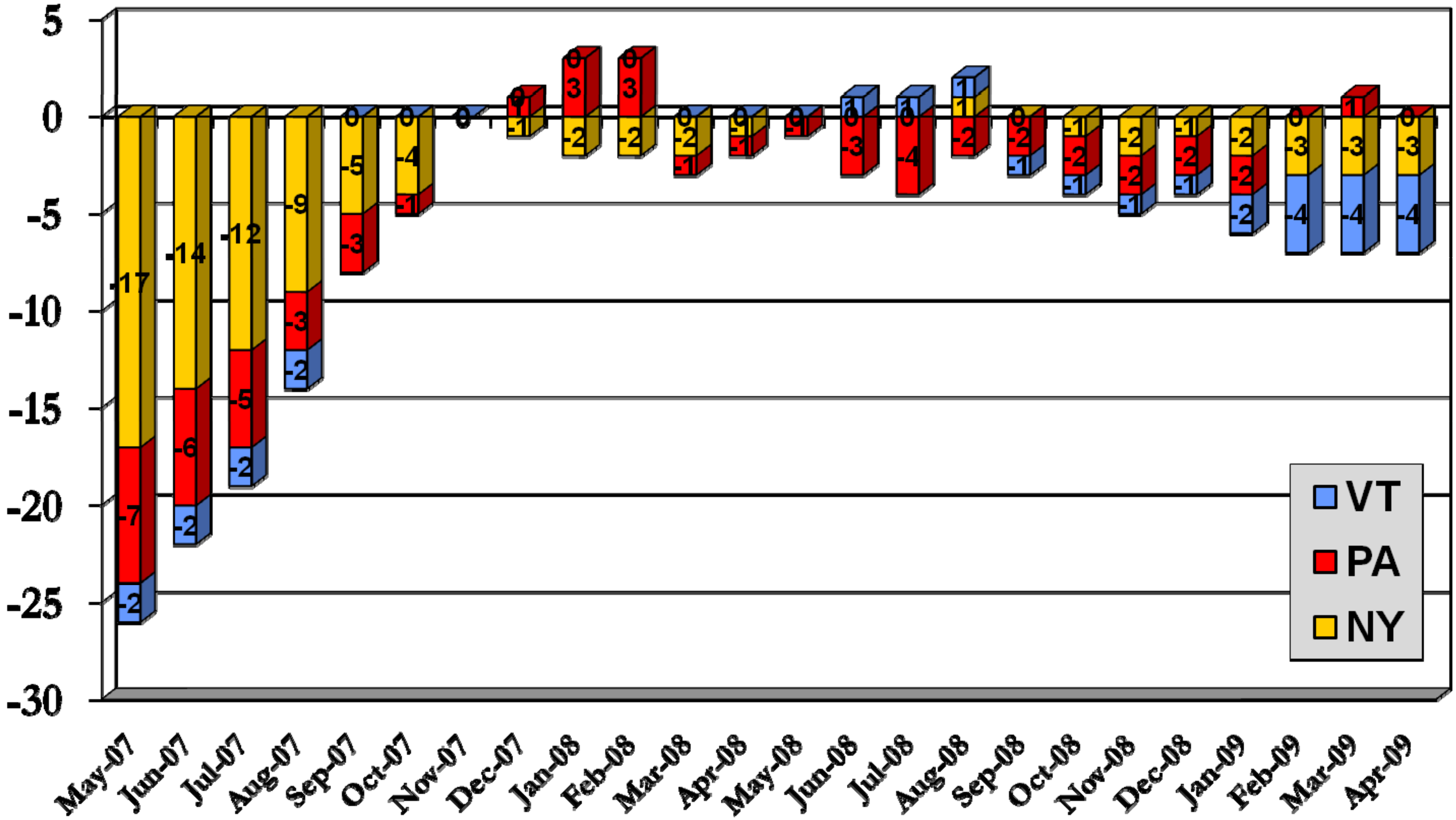
Northeast Cow Numbers

Thousands of Cows This Year Compared to Last Year

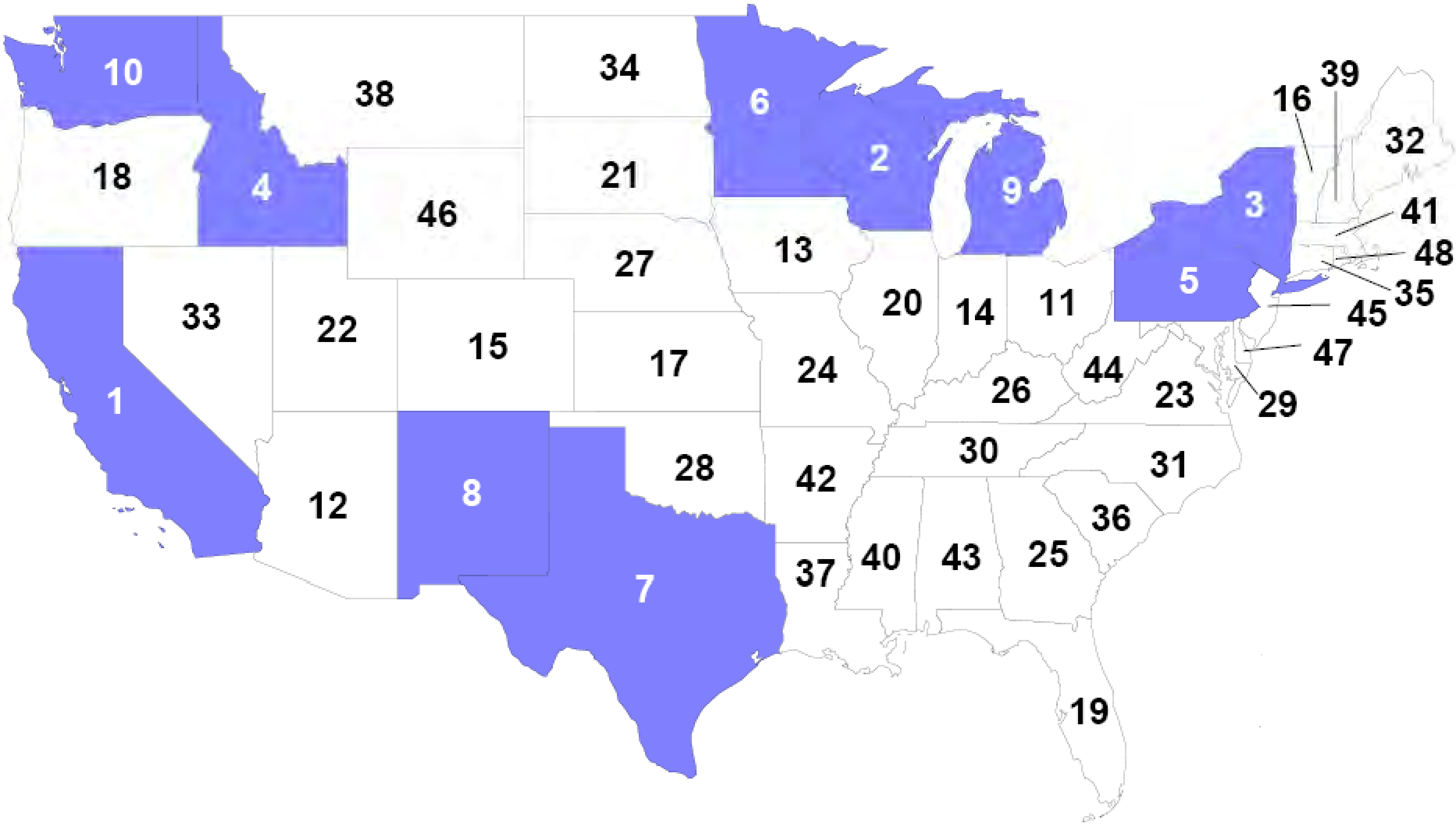


Northeast Cow Numbers

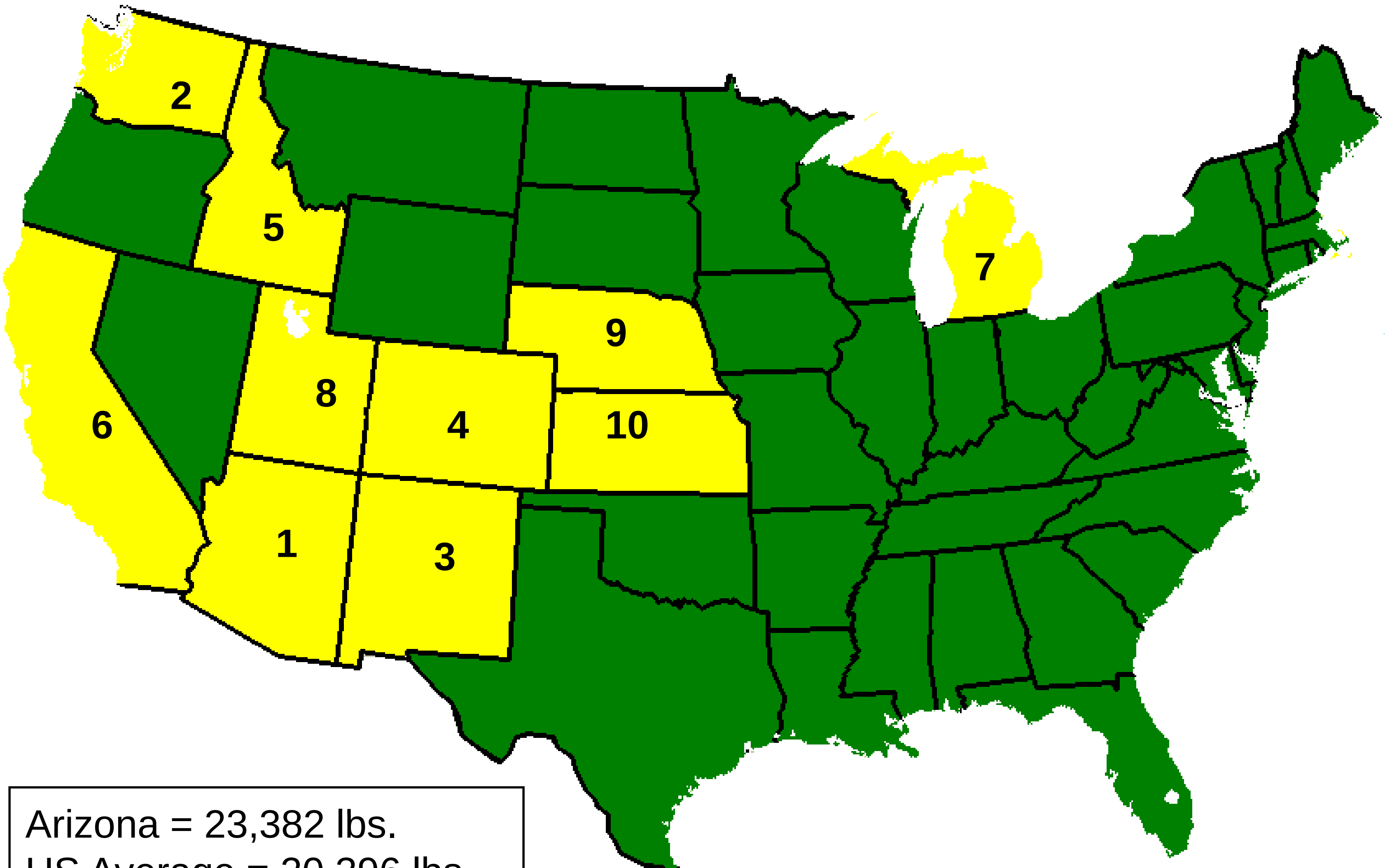
Thousands of Cows This Year Compared to Last Year



2008 Milk Production Ranking
Top Ten States Highlighted



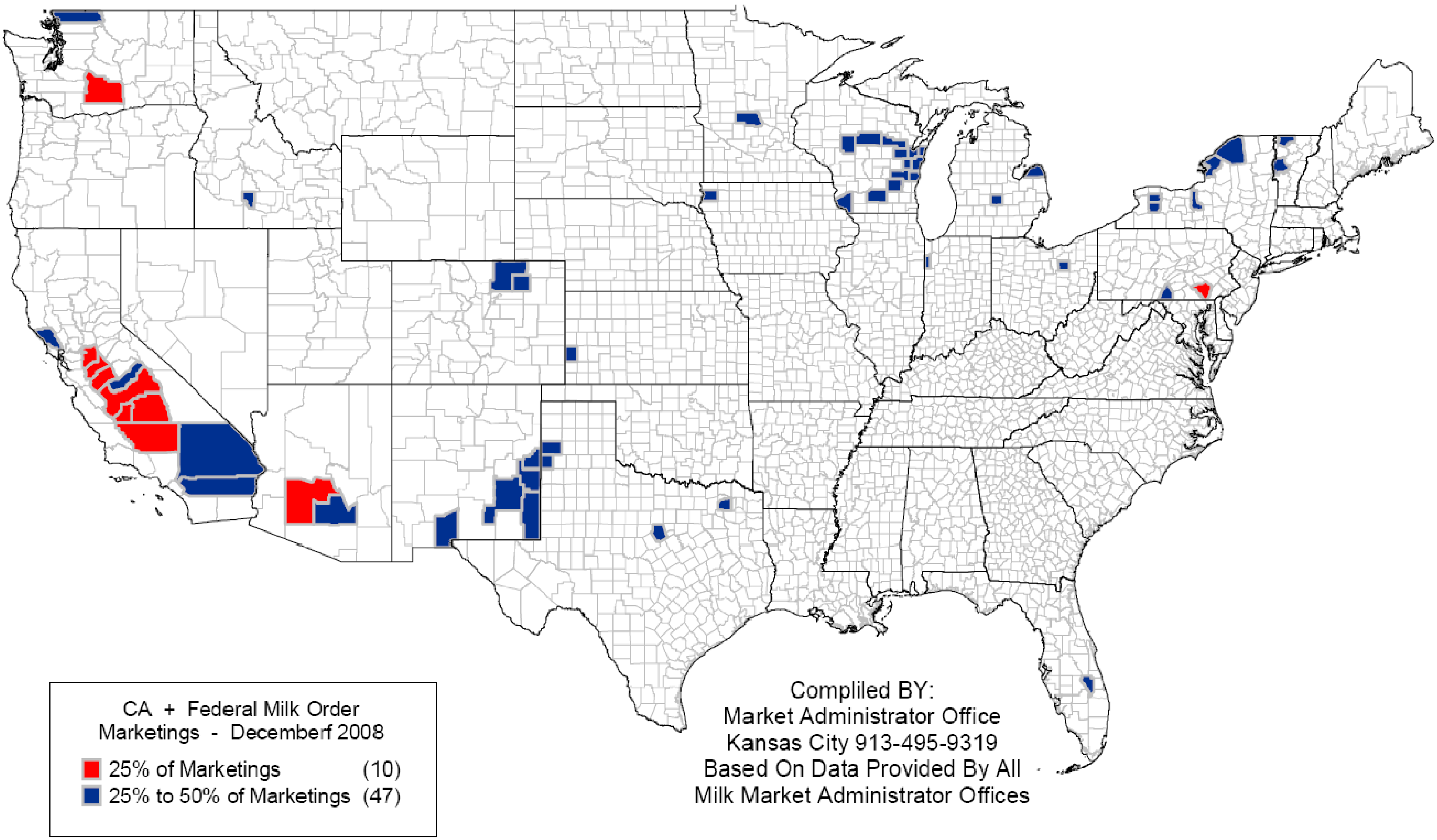
Top 10 States in Milk Production Per Cow
2008



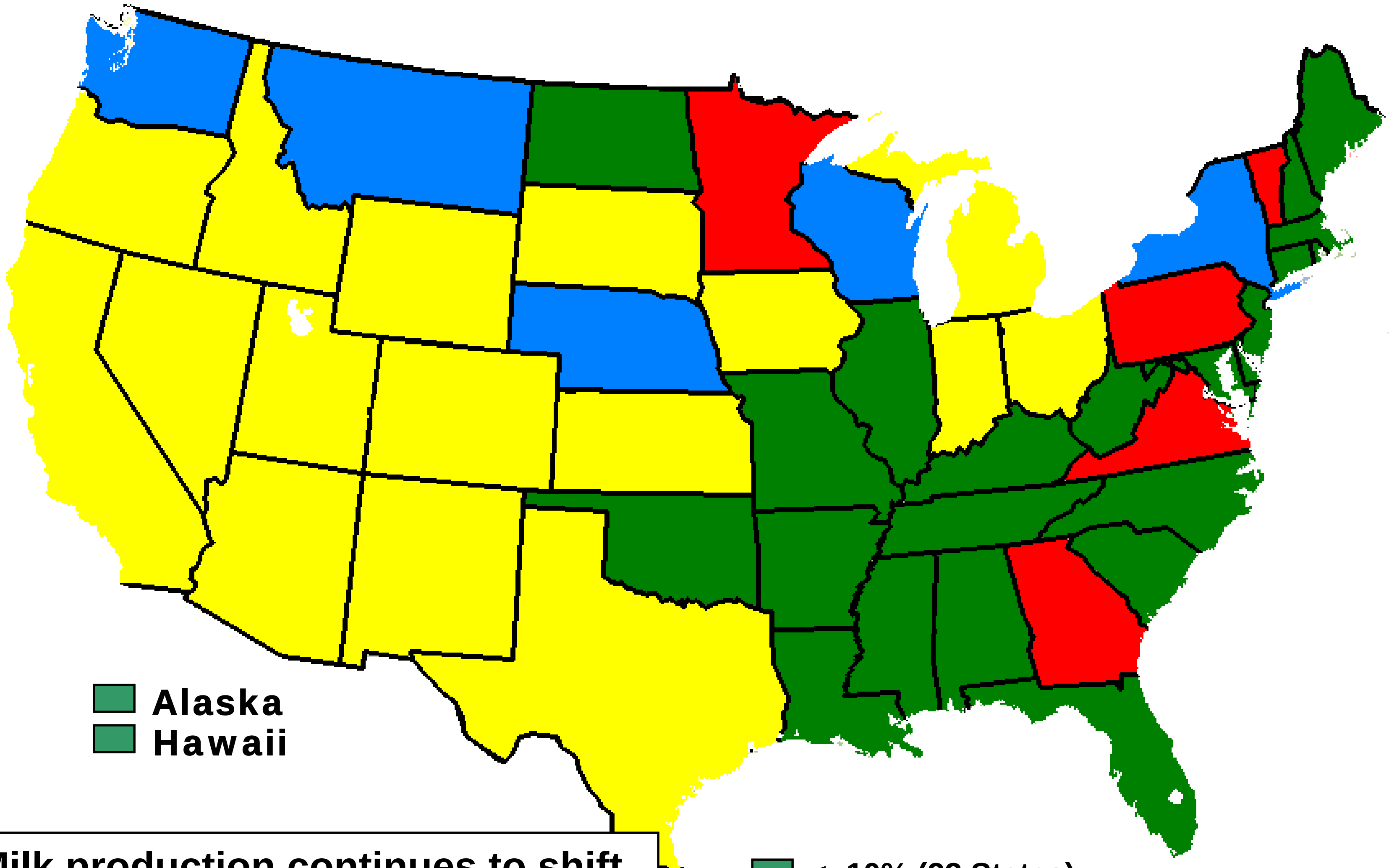
Arizona = 23,382 lbs.
US Average = 20,396 lbs.

Source: USDA

57 Counties Marketed 50% of All CA + Federal Order Milk During December 2008



Percent Change in Milk Production
1998 - 2008



Milk production continues to shift from UMW & East to SW & West

- < -10% (23 States)
- -10% - 0% (5 States)
- 0% - 10% (5 States)
- > 10% (17 States)

Source: USDA

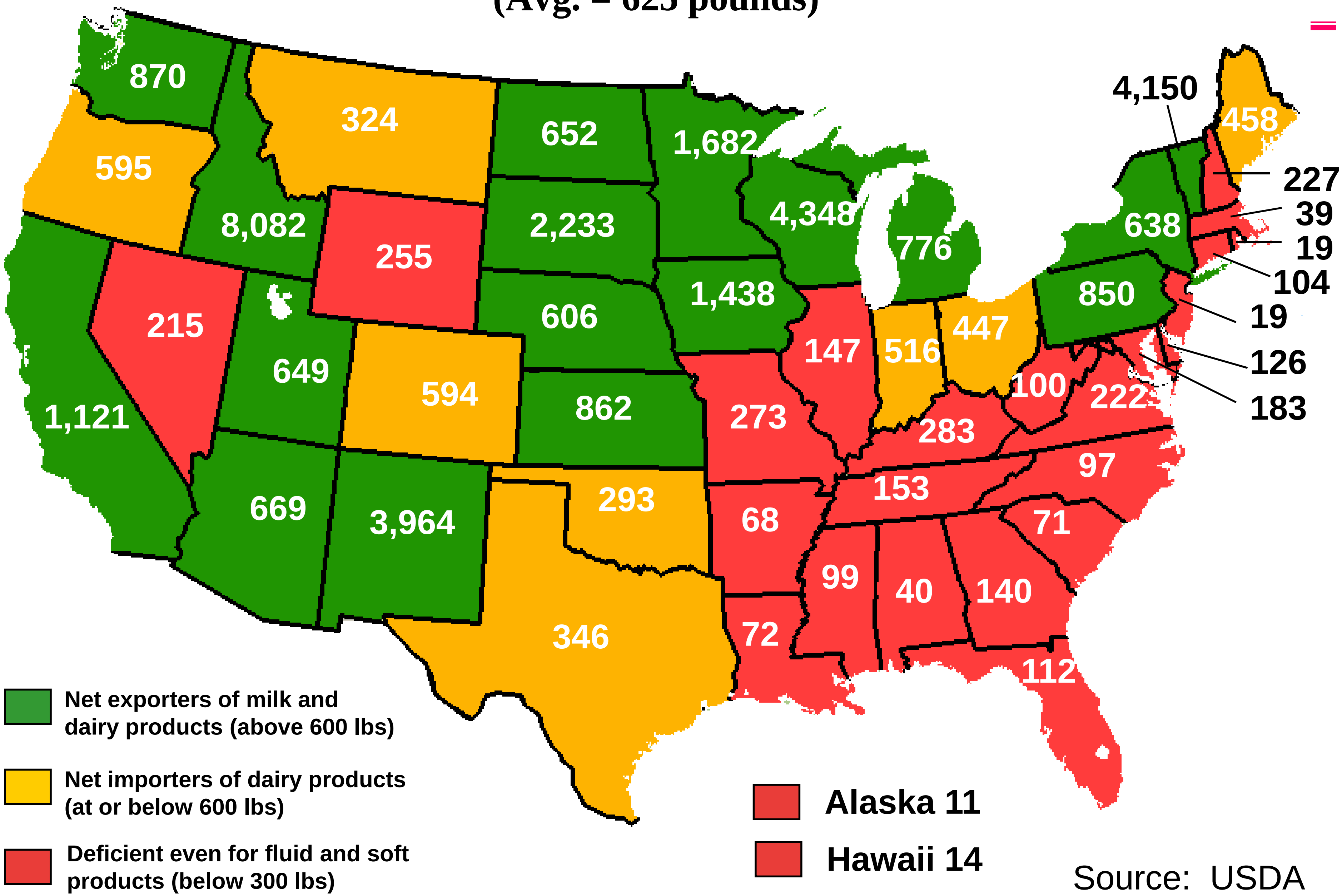
Top 10 Milk Producing States in 2008 vs. 2002

2006 Rank		2008 Production (billion)	2000 Rank		2002 Production (billion)	Percent Change
1	CALIFORNIA	41.20	1	CALIFORNIA	35.07	17.5%
2	WISCONSIN	24.47	2	WISCONSIN	22.07	10.9%
3	NEW YORK	12.43	3	NEW YORK	12.22	1.7%
4	IDAHO	12.32	4	PENNSYLVANIA	10.78	-1.9%
5	PENNSYLVANIA	10.58	5	MINNESOTA	8.46	3.8%
6	MINNESOTA	8.78	6	IDAHO	8.16	51.0%
7	TEXAS	8.42	7	NEW MEXICO	6.32	24.5%
8	NEW MEXICO	7.87	8	MICHIGAN	6.12	26.8%
9	MICHIGAN	7.76	9	WASHINGTON	5.62	1.4%
10	WASHINGTON	5.70	10	TEXAS	5.30	58.9%

Source: USDA, Economic Research Service

2008 Per Capita Milk Production

(Avg. = 625 pounds)

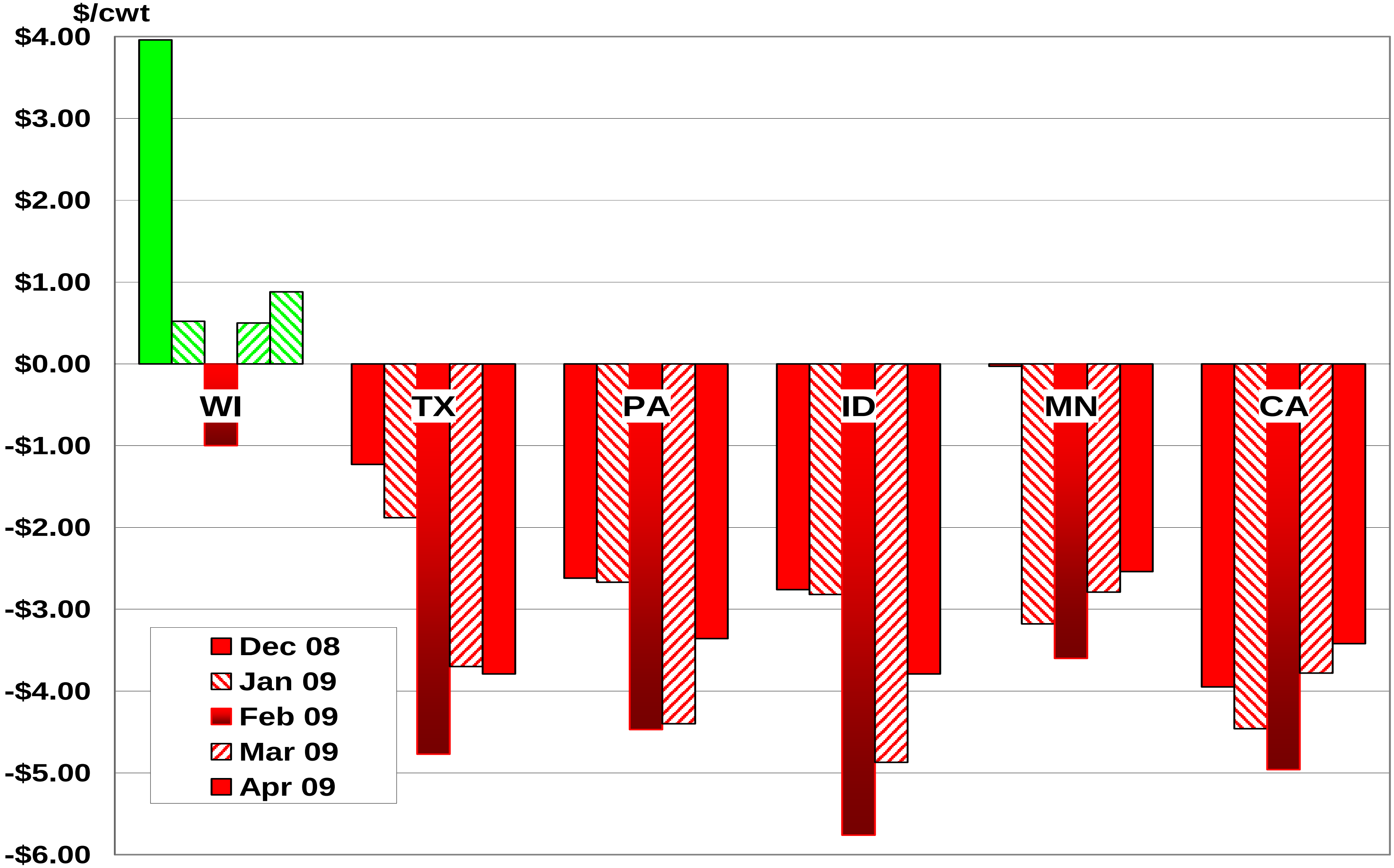


World Dairy Exports Down (YTD Feb '09)

- Butter ↓ 9%
- NFDM ↓ 52% thru March
- Cheese ↓ 16%
- Whey ↑ 9%

- NOT CORRECT for Q1

ALL US Dairy Regions Have Experienced Negative Margins



USDA, ERS

CWT Herd Retirements (I – VI)

	2003	2004	2005	2007	2008 (1)	2008 (2)	2009
Bids accepted	299	363	442	333	203	184	388
Total cows	37,724	50,478	64,609	52,873	24,860	61,078	102,898
Cows Per bid	126	139	146	119	122	332	265
Total milk (mil lbs)	609	908	1,174	1,001	436	1,206	2,000
Milk per cow	16,143	17,988	18,171	18,964	17,538	19,745	19,436
Avg. bid	$4.02	$5.24	$6.75	$5.50	$6.10	$6.49	?