



Coffee, Sugar & Cocoa Exchange, Inc.

509

NEWS RELEASE

For Immediate Release

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CSCE Launches Butter Futures Market

(New York, N.Y. October 15, 1996) - At 9:00 AM this morning, the Coffee, Sugar & Cocoa Exchange, Inc. (CSCE) began trading a new Butter futures contract, further expanding the range of risk management tools available to the dairy industry.

"Futures markets are critical for the U.S. dairy industry, as price volatility increases and government price supports decrease," said CSCE President James J. Bowe. "The addition of Butter futures to our existing dairy product line – which includes milk, Cheddar cheese and nonfat dry milk – provides yet another vehicle for dairy firms to better manage their businesses. Now those involved in the manufacture or purchase of butter – dairy cooperatives, butter processors and dairy product manufacturers – can lock in their price of butter well in advance, protecting themselves against unstable prices."

The CSCE Butter futures contract calls for FOB delivery of USDA Grade AA "Fresh" or "storage" salted butter at any point within the continental United States. The trading unit is 10,000 lbs. with a delivery unit of 40,000 lbs. Trading hours are 9:00 AM to 2:00 PM New York Time. Price quotation is in cents/lb., with delivery months of February, April, June, August, October and December; ticker symbol is BW.

The CSCE introduced Cheddar cheese and nonfat dry milk (NDM) futures and options markets in June of 1993, and added milk futures and options in December of 1995.

The Exchange has a variety of educational materials available, including a product brochure, hedging examples and broker directories. To receive copies, call the Exchange Marketing Department at (212) 742-6100 or 1-800-HEDGE IT, or e-mail the CSCE at csce@ix.netcom.com.

The Coffee, Sugar & Cocoa Exchange, Inc. is the world's leading marketplace for futures and options trading in these three international commodities.

Global Markets
for Global Markets
Since 1882

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BUTTER Futures and Options Contract

THE FOLLOWING QUOTE VENDORS WILL BE CARRYING DAILY CONTRACT PRICES.
LISTED WITH EACH VENDOR IS THE COMMODITY CODE UNDER
WHICH THE CONTRACT INFORMATION CAN BE FOUND.

ADP/BISG	BW
Beta Systems	BW
Bloomberg Financial Markets	DW
Bridge Market Data Systems	BW
CQG Inc.	BW
Data Transmission Network Corp.	BW
Dow Jones Telerate	BW
Futuresource Inc.	BW
Knight-Ridder Business Information	BW
Market Vision Corp.	BW
PC Quote Inc.	BW
Reuters Information Service	BW
S-P Comstock	BW
Star Data Systems Inc.	BW
Telekurs Inc.	BW

Grade AA
Spot Butter
Monthly Avg
\$/lb.

Jan-91	0.9725
Feb-91	0.9725
Mar-91	0.9725
Apr-91	0.9725
May-91	0.9745
Jun-91	1.0231
Jul-91	1.0325
Aug-91	1.0325
Sep-91	1.0638
Oct-91	1.0950
Nov-91	1.0710
Dec-91	1.0038
Jan-92	0.9065
Feb-92	0.8625
Mar-92	0.8625
Apr-92	0.8625
May-92	0.8325
Jun-92	0.8125
Jul-92	0.8125
Aug-92	0.8125
Sep-92	0.8475
Oct-92	0.8500
Nov-92	0.8500
Dec-92	0.7915
Jan-93	0.7525
Feb-93	0.7525
Mar-93	0.7675
Apr-93	0.7825
May-93	0.7825
Jun-93	0.8047
Jul-93	0.7730
Aug-93	0.7800
Sep-93	0.7800
Oct-93	0.7800
Nov-93	0.7800
Dec-93	0.7100
Jan-94	0.6500
Feb-94	0.6550
Mar-94	0.7000
Apr-94	0.6960
May-94	0.6775
Jun-94	0.6819
Jul-94	0.7240
Aug-94	0.7550
Sep-94	0.7570
Oct-94	0.7575
Nov-94	0.7575
Dec-94	0.6930
Jan-95	0.6575

Feb-95

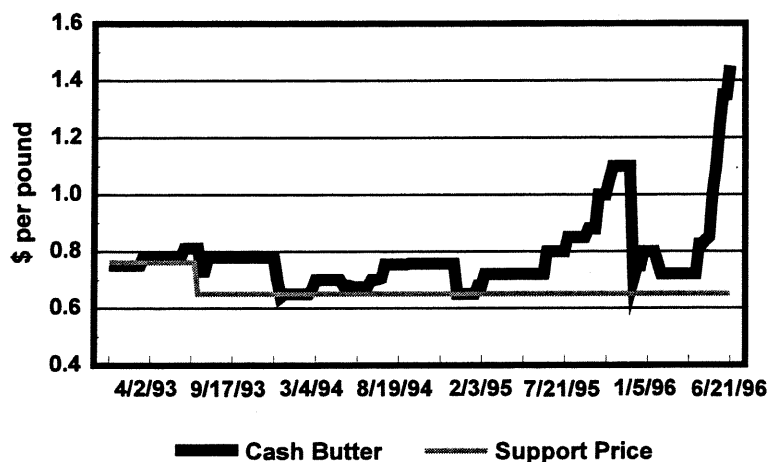
0.7100

Mar-95	0.7200
Apr-95	0.7200
May-95	0.7200
Jun-95	0.7680
Jul-95	0.8125
Aug-95	0.8500
Sep-95	0.8980
Oct-95	1.0375
Nov-95	1.1000
Dec-95	0.8200
Jan-96	0.7900
Feb-96	0.7200
Mar-96	0.7200
Apr-96	0.7725
May-96	1.0060
Jun-96	1.4125
Jul-96	1.5225
Aug-96	1.5300

Butter Up!

Futures Launch October 15, 1996

Weekly Cash Butter vs. Support Prices



Source: Dairy Market News

The ups and downs in butter prices directly affect your bottom line performance. Now the **Coffee, Sugar & Cocoa Exchange** offers the ideal risk management tool to safeguard profits—**Butter Futures and Options**.

The CSCE is about to broaden its dairy futures and options product base by launching a butter futures contract on October 15, 1996. Options on butter futures will begin trading October 22. The CSCE currently trades futures and options on fluid milk, Cheddar cheese and nonfat dry milk.

To find out how these contracts can help you manage your risk, call the CSCE and ask for your free butter information kit.



Coffee, Sugar & Cocoa Exchange, Inc. • 4 World Trade Center • New York, NY 10048
1-800-HEDGE IT • 212-742-6100 • FAX 212-748-4321 • <http://www.csce.com>



ON THE

DAIRY MARKETS

CSCE to Begin Trading Butter Contracts on October 15

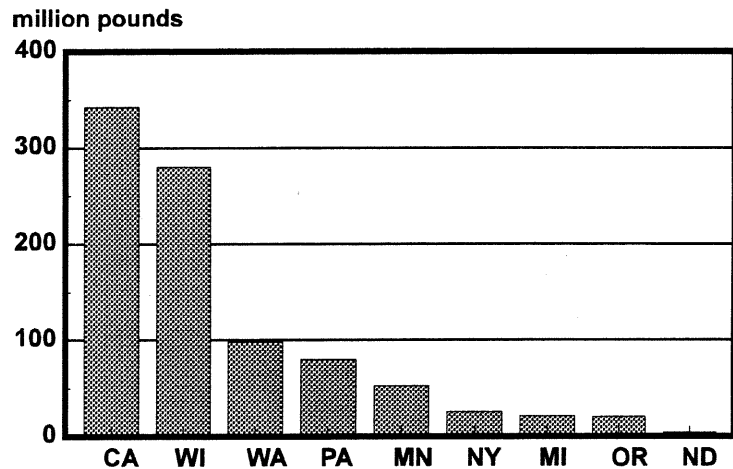
On October 15, the Coffee, Sugar & Cocoa Exchange, Inc. (CSCE) will introduce trading in Butter futures, with trading in Butter options commencing on October 22.

Butter futures and options are a natural extension of the Exchange's existing dairy products line and will further the Exchange's continuing efforts to provide the widest possible spectrum of price risk management tools to the dairy industry. Since the decline in government support prices for dairy products in the late 1980s, the dairy industry has been exposed to increasing levels of price risk. In fact, the 1996 Farm Bill calls for the elimination of price supports for dairy products, including butter, at the end of 1999.

CSCE Butter Futures

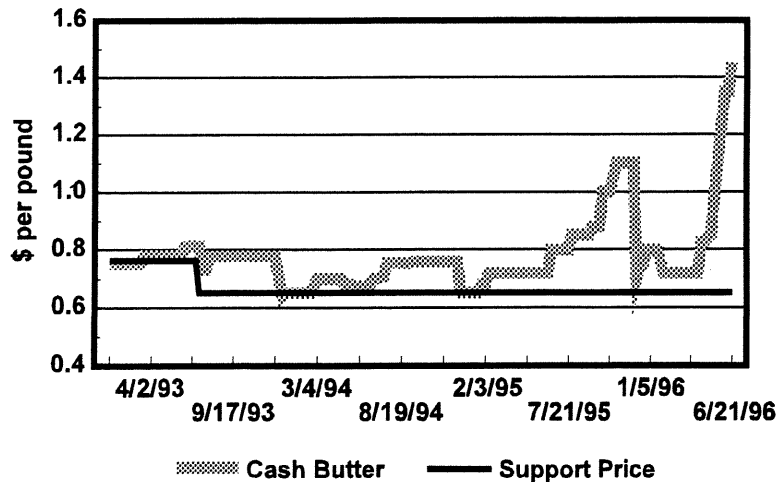
The CSCE Butter futures contract was developed with the guidance of dairy industry participants, and formulated in accordance with existing cash market practices. The delivery size is one truckload of butter (40,000 pounds), with the contract size based on 10,000 pounds. The smaller contract size will afford all segments of the dairy industry involved in buying or selling butter the opportunity to use the markets. The contract will trade from 9:00 AM to 2:00 PM New York time, and calls for FOB delivery of USDA Grade AA "fresh" or "storage" salted butter at any point within the continental United States. In addition, there are no price differentials on delivery locations, and

U.S. Butter Production By State - 1995



Total U.S. Butter Production-1995: 1,260,736,000
Source: NASS/USDA

Weekly Cash Butter vs. Support Prices



Source: Dairy Market News

Dairy Products



United States
Department of
Agriculture

Washington, D.C.

Released July 7, 1995, by the Agricultural Statistics Board. Estimates refer to May 1995.

May 1995 Highlights

Butter production was 116 million pounds in May, down 1 percent from May 1994 and 2 percent below April 1995.

American type cheese production totaled 273 million pounds, 3 percent above May 1994 and 6 percent above April 1995.

Total cheese output (excluding cottage cheese) was 598 million pounds, up 1 percent from May 1994 and 6 percent above April 1995.

Creamed cottage cheese production was 32.5 million pounds, 8 percent below May 1994 but 8 percent above April 1995.

Lowfat cottage cheese production was 28.1 million pounds, 2 percent below May 1994 but 7 percent above April 1995.

Frozen desserts: (comparisons with May 1994)

Ice cream (hard)---75.9 million gallons, down 2 percent.

Ice cream (low fat)---31.7 million gallons, down 9 percent.

Sherbet (hard)---5.12 million gallons, up 3 percent.

Dry milk products: (comparisons with May 1994)

Nonfat dry milk for human food---130 million pounds, down 3 percent.

Dry whole milk---14.0 million pounds, down 17 percent.

Dry buttermilk---4.69 million pounds, down 1 percent.

For information call Kevin Hintzman at (202) 720-4448. Office hours are 8:00 a.m. to 4:30 p.m. ET.

Dairy Products: Production by Product.
United States, May 1994-95

Product	May	Apr	May	Percent of	
	1994	1995 1/	1995	May	Apr
				1994	1995
	----- 1,000 Pounds -----			Percent	
Butter	118.174	119.251	116.465	99	98
Cheese					
American Types 2/	266.085	258.897	273.338	103	106
Swiss	19.416	20.488	22.005	113	107
Brick and Muenster	9.774	9.660	9.582	98	99
Cream and Neufchatel	40.299	45.087	47.065	117	104
Blue	2.897	3.110	2.664	92	86
Mozzarella	186.403	167.989	179.445	96	107
Other Italian Types	49.484	42.573	45.002	91	106
Total Italian Types	235.887	210.562	224.447	95	107
All Other Types 3/	15.996	16.137	18.417	115	114
Total	590.354	563.941	597.518	101	106
Cottage Cheese, Curd 4/	39.570	34.831	39.204	99	113
Cottage Cheese, Creamed 5/	35.414	30.028	32.528	92	108
Cottage Cheese, Lowfat 6/	28.714	26.375	28.130	98	107
Canned Evaporated and Condensed Whole Milk	56.218	51.010	51.778	92	102
Dry Whole Milk	16.939	17.878	14.037	83	79
Nonfat Dry Milk, Human	134.151	116.463	129.951	97	112
Dry Skim Milk, Animal	1.201	618	1.039	87	168
Dry Buttermilk	4.739	4.623	4.685	99	101
Yogurt, Plain & Flavored	122.148	112.770	117.537	96	104
	----- 1,000 Gallons -----			Percent	
Frozen Products					
Ice Cream, Hard	77.563	72.126	75.909	98	105
Ice Cream, Lowfat, Hard	10.990	10.220	9.651	88	94
Ice Cream, Lowfat, Soft	23.831	18.300	22.049	93	120
Ice Cream, Lowfat, Total	34.821	28.520	31.700	91	111
Sherbet, Hard	4.952	4.537	5.123	103	113
Water and Juice Ices	7.066	6.325	6.643	94	105
Frozen Yogurt, Total	15.445	13.583	15.015	97	111
Regular & Lowfat, Hard	3.331	6.271	6.244	187	100
Nonfat, Hard		2.460	2.245		91
Other Frozen Dairy Products	5.909	1.585	1.699	29	107
Mixed for Frozen Products					
Ice Cream Mix	42.001	38.552	41.001	98	106
Ice Cream, Lowfat, Mix	20.945	17.579	19.779	94	113
Ice Cream, Nonfat, Mix		1.566	2.313		148
Sherbet Mix	3.453	2.954	3.470	100	117
Yogurt Mix	9.775	8.597	9.503	97	111

- 1/ Revised.
2/ Whole milk cheese, including cheddar, colby, washed curd, stirred curd, monterey, and jack.
3/ Includes limburger formerly published separately.
4/ Mostly used for processing into creamed or lowfat cottage cheese.
5/ Fat content 4 percent or more.
6/ Fat content less than 4 percent.

Dairy Products: Production by Product and Month,
United States, 1994-95 (continued)

Product and Month	By Month			Cumulative		
	1994	1995	1995 as % of 1994	1994	1995	1995 as % of 1994
	-- 1.000 Pounds --		Percent	--- 1.000 Pounds ---		Percent
Butter						
Jan	135.299	131.983	98	135.299	131.983	98
Feb	118.402	120.280	102	253.701	252.263	99
Mar	118.035	125.731	107	371.736	377.994	102
Apr	119.416	119.251	100	491.152	497.245	101
May	118.174	116.465	99	609.326	613.710	101
Jun	99.221			708.547		
Jul	84.172			792.719		
Aug	88.183			880.902		
Sep	91.175			972.077		
Oct	101.784			1,073.861		
Nov	100.664			1,174.525		
Dec	121.417			1,295.942		
American Cheese						
Jan	247.254	262.007	106	247.254	262.007	106
Feb	219.714	240.172	109	466.968	502.179	108
Mar	249.701	263.182	105	716.669	765.361	107
Apr	255.205	258.897	101	971.874	1,024.258	105
May	266.085	273.338	103	1,237.959	1,297.596	105
Jun	258.799			1,496.758		
Jul	252.277			1,749.035		
Aug	242.634			1,991.669		
Sep	244.104			2,235.773		
Oct	244.347			2,480.120		
Nov	239.964			2,720.084		
Dec	256.899			2,976.983		
Italian Cheese						
Jan	211.741	216.460	102	211.741	216.460	102
Feb	208.496	208.189	100	420.237	424.649	101
Mar	241.302	227.188	94	661.539	651.837	99
Apr	213.855	210.562	98	875.394	862.399	99
May	235.887	224.447	95	1,111.281	1,086.846	98
Jun	207.085			1,318.366		
Jul	208.317			1,526.683		
Aug	220.311			1,746.994		
Sep	215.445			1,962.439		
Oct	220.191			2,182.630		
Nov	214.030			2,396.660		
Dec	224.866			2,621.526		

See footnotes at end of table.

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Dairy Products: Production by Product and Month,
United States, 1994-95 (continued)

Product and Month	By Month			Cumulative		
	1994	1995	1995 as % of 1994	1994	1995	1995 as % of 1994
	1.000 Pounds		Percent	1.000 Pounds		Percent
Cream Cottage Cheese						
Jan	33.046	30.429	92	33.046	30.429	92
Feb	32.849	29.741	91	65.895	60.170	91
Mar	37.979	36.277	96	103.874	96.447	93
Apr	34.416	30.028	87	138.290	126.475	91
May	35.414	32.528	92	173.704	159.003	92
Jun	35.922			209.626		
Jul	35.473			245.099		
Aug	37.242			282.341		
Sep	33.945			316.286		
Oct	32.374			348.660		
Nov	30.782			379.442		
Dec	30.512			409.954		
Lowfat Cottage Cheese						
Jan	24.955	26.714	107	24.955	26.714	107
Feb	26.168	25.742	98	51.123	52.456	103
Mar	29.083	28.406	98	80.206	80.862	101
Apr	27.667	26.375	95	107.873	107.237	99
May	28.714	28.130	98	136.587	135.367	99
Jun	27.884			164.471		
Jul	27.528			191.999		
Aug	28.859			220.858		
Sep	27.801			248.659		
Oct	25.096			273.755		
Nov	25.006			298.761		
Dec	22.316			321.077		
Ice Cream, Hard						
Jan	54.842	58.031	106	54.842	58.031	106
Feb	62.058	60.644	98	116.900	118.675	102
Mar	76.593	74.114	97	193.493	192.789	100
Apr	75.760	72.126	95	269.253	264.915	98
May	77.563	75.909	98	346.816	340.824	98
Jun	86.013			432.829		
Jul	82.939			515.768		
Aug	82.678			598.446		
Sep	66.570			665.016		
Oct	59.570			724.586		
Nov	57.499			782.085		
Dec	53.653			835.738		

See footnotes at end of table.

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American Cheese: Production by State and United States, May 1994-95

State	May 1994	Apr 1995	May 1995	Percent of	
				May 1994	Apr 1995
			1,000 Pounds		Percent
CA	31.127	28.475	28.713	92	101
ID	19.300	22.442	23.528	122	105
IL	845	28	24	3	86
IA	11.491	8.013	8.743	76	109
KS	3.287	3.280	3.392	103	103
MN	54.211	53.024	55.850	103	105
NY	9.044	7.266	7.491	83	103
ND	3.146	2.751	3.028	96	110
OR	3.835	4.262	4.396	115	103
SD	3.631	3.025	3.320	91	110
UT	3.262	3.575	3.540	109	99
VT	3.682	2.270	3.006	82	132
WA	2.078	1.731	1.186	57	69
WI	81.805	78.900	88.350	108	112
Oth Sts 1/	35.341	39.855	38.771	110	97
US	266.085	258.897	273.338	103	106
Atlantic	14.820	13.424	13.615	92	101
E N Central	86.990	82.010	92.059	106	112
W N Central	81.775	75.606	79.349	97	105
S Central	15.852	15.659	15.321	97	98
West	66.648	72.198	72.994	110	101

1/ States not shown when fewer than 3 plants reported or individual plant operations could be disclosed.

Mozzarella Cheese: Production by State and United States, May 1994-95

State	May 1994	Apr 1995	May 1995	Percent of	
				May 1994	Apr 1995
			1,000 Pounds		Percent
CA	39.030	39.305	38.803	99	99
IL	1.713	1.573	1.746	102	111
MI	9.376	6.696	7.604	81	114
NY	14.991	15.218	16.778	112	110
PA	22.405	17.690	19.250	86	109
VT	2.648	3.546	4.261	161	120
WI	49.851	49.800	53.500	107	107
Oth Sts 1/	46.389	34.161	37.503	81	110
US	186.403	167.989	179.445	96	107
Atlantic	41.372	38.254	41.831	101	109
E N Central	61.195	58.352	63.299	103	108
W N Central	22.165	20.474	20.670	93	101
West	60.530	49.156	52.523	87	107

1/ States not shown when fewer than 3 plants reported or individual plant operations could be disclosed.

Nonfat Dry Milk, Human: Production by State
and United States, May 1994-95

State	May	Apr	May	Percent of	
	1994	1995	1995	May	Apr
	1,000 Pounds			Percent	
	1994	1995	1995	1994	1995
CA	38.132	33.752	36.155	95	107
MI	4.705	1.641	5.695	121	347
MN	4.885	3.694	3.914	80	106
NY	3.380	3.299	3.687	109	112
ND	38	182	204	537	112
WA	20.459	18.600	21.544	105	116
WI	8.301	7.398	9.018	109	122
Oth Sts 1/	54.251	47.897	49.734	92	104
US	134.151	116.463	129.951	97	112
Atlantic	21.455	21.097	23.478	109	111
E N Central	15.305	10.559	16.351	107	155
W N Central	17.225	16.691	17.835	104	107
S Central	15.946	10.488	11.553	72	110
West	64.220	57.628	60.734	95	105

1/ States not shown when fewer than 3 plants reported or individual plant operations could be disclosed.

Canned Milk and Dry Milk Products: Manufacturers' Shipments,
Stocks, and Selling Prices, May 1994-95

Product	May	Apr	May	Percent of	
	1994	1995 1/	1995	May	Apr
				1994	1995
	Manufacturers' Shipments 2/				
	----- 1,000 Pounds -----			----- Percent -----	
Dry Whole Milk	10.485	15.063	13.514	129	90
Nonfat Dry Milk, Human	86.104	87.414	113.504	132	130
Dry Skim Milk, Animal	1.088	420	1.106	102	263
Dry Buttermilk, Human	3.308	3.435	3.617	109	105
	Manufacturers' Stocks End-of-Month 3/				
	----- 1,000 Pounds -----			----- Percent -----	
Canned Evaporated and Condensed Whole Milk	100.121	81.436	95.775	96	118
Dry Whole Milk	9.275	16.499	14.440	156	88
Nonfat Dry Milk, Human	124.392	127.069	128.964	104	101
Dry Skim Milk, Animal	1.820	1.725	1.896	104	110
Dry Buttermilk, Total	5.846	6.939	7.675	131	111
	Manufacturers' Selling Prices 4/				
	----- Cents per Pound -----			----- Cents Change -----	
Dry Whole Milk	118.93	112.68	110.81	-8.12	-1.87
Nonfat Dry Milk, Human	106.66	105.70	105.95	-.71	.25
Dry Skim Milk, Animal	51.48	47.87	53.34	1.86	5.47
Dry Buttermilk, Human	105.98	90.12	84.34	-21.64	-5.78

1/ Revised.

2/ For dry products, shipments of bulk goods only.

3/ Stocks held by manufacturers at all points and in transit.

4/ Prices for bulk goods, f.o.b. plant. Average monthly prices reported by firms, weighted by shipments of each firm.



Dairy Broker Directory

The following list of companies are firms that are members or clear their trades through member firms of the Coffee, Sugar & Cocoa Exchange and have identified individuals in their organizations who handle customer business in the Dairy markets. This list has been prepared as a service of the Exchange to assist those who are seeking access to firms to handle their Coffee, Sugar and Cocoa Exchange dairy futures and options business. The inclusion of any individual or firm cannot be considered as an Exchange recommendation or endorsement.

ADM INVESTOR SERVICES, INC.

141 W. Jackson Blvd., Ste. 1600A
Chicago, IL 60604
Catie Lee (800) 243-2649/(312) 435-7000
Robin Faulkner (800) 243-2649/(312) 435-7000

ADM INVESTOR SERVICES, INC.

140 Broadway, 23rd floor
New York, NY 10005
Toni Ann Scott
(212) 785-1555

ALCO COMMODITIES, INC.

120 Broadway, 7th Floor
New York, NY 10271
Aldo Rosa (212) 433-7785
Ronald Schaedler (212) 433-7785

AG EDWARDS & SONS, INC.

One North Jefferson
St. Louis, MO 63103
Ray Skelton (314) 955-3730
O. Lee Reid, Jr. (314) 955-3049

ROGER W. BLIMLING, INC.

4566 Kennedy Road
Cottage Grove, WI 53527
Roger Blimling (608) 839-5565
Phil Plourd (608) 839-9860
(clears through ED & F Man International, Inc.)

THE CHICAGO CORPORATION

71 Broadway, Suite 1500
New York, NY 10006
Richard M. Schaeffer (212) 859-1234
Kathleen McVicar (212) 859-1203

CONQUEST INC.

5735 Pineland
Suite 207
Dallas, TX 75321
Stacy A. Engelmoor (214) 373-7555
John Vassallo (214) 373-7555
(clears through Linco Futures Group, L.L.C.)

DAPCO BROKERAGE

4 World Trade Center
Box 418
Paul Dapolito (212) 748-1950

DEAN WITTER REYNOLDS INC.

150 South Wacker Drive
Chicago, IL 60606
Lawrence J. Schneider (312) 984-4378

ESPO COMMODITIES, INC.

90 West Street, Suite 612
New York, NY 10006
Phil Esposito (212) 742-7199

EVEREN SECURITIES

66 South Main Street
Box 1317
Fond du Lac, WI 54935
Mike Mann (800) 242-7540
(clears through ADM Investor Services, Inc.)

FARMERS COMMODITIES CORPORATION

11000 W. 78th Street, Suite 50
Eden Prairie, MN 55344-8010
Gordy Elliott (800) 447-7993
Tom Stehr, (800) 447-7993
(clears through ED & F Man International, Inc.)

FIRST CAPITOL AG, INC.

P.O. Box 25
Platteville, WI 53818
Carl B. Babler (800) 437-7751/(608) 348-5980
Phillip F. Gudgeon (800) 518-7445/(608) 637-7155
(clears through ADM Investor Services, Inc.)

**FOX INVESTMENTS/
ROSENTHAL COLLINS GROUP**

141 W. Jackson Blvd. # 1800A
Chicago, IL 60614
Mike Downes (312) 341-5830
Joe O'Neill (312) 341-5727

Dairy Broker Directory *(continued)*

GOLDMAN SACHS & CO.
85 Broad Street, 26 Floor
New York, NY 10004
Nancy O'Flynn (212) 902-8000

HORSAGER TRADING CO.
301 Fourth Avenue South
P.O. Box 18105
Minneapolis, MN 55415-0105
Doyle Larkin (612) 371-4965
(clears through Cargill Investor Services, Inc.)

ED & F MAN INTERNATIONAL, INC.
2 World Trade Center, 27th floor
New York, NY 10281-2700
Anthony J. Pecoraro (212) 566-1300
Josh Connell (212) 566-1300

ING SECURITIES, FUTURES & OPTIONS
1 Liberty Plaza, 29th floor
New York, NY 10006
Howard Rennell (212) 374-6363

JOHN JAMES FUTURES
338 Harris Hill Road
Parliament Center - Suite 105
Amherst, NY 14221
Mike Arthur (716) 633-3211
Jim Liolos (716) 633-3211
(clears through Lind-Waldock & Co.)

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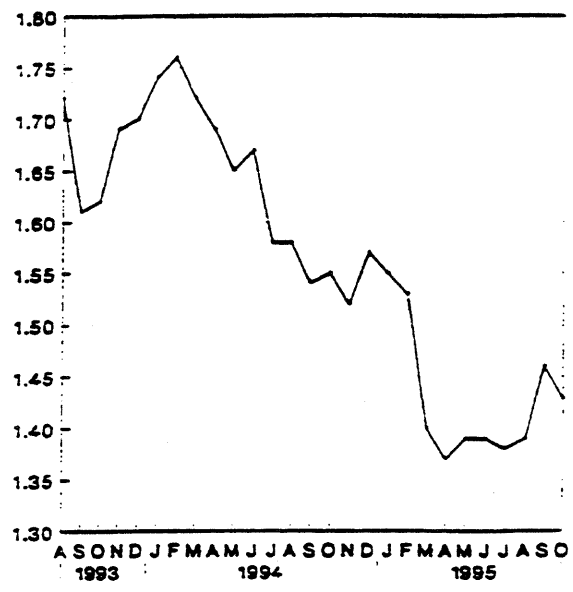
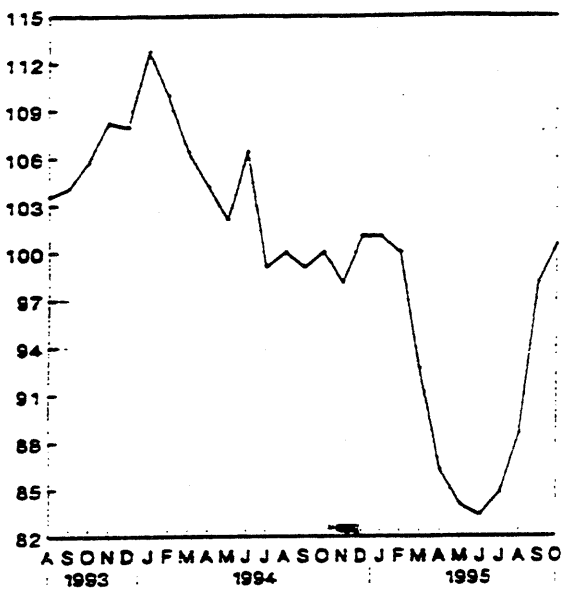
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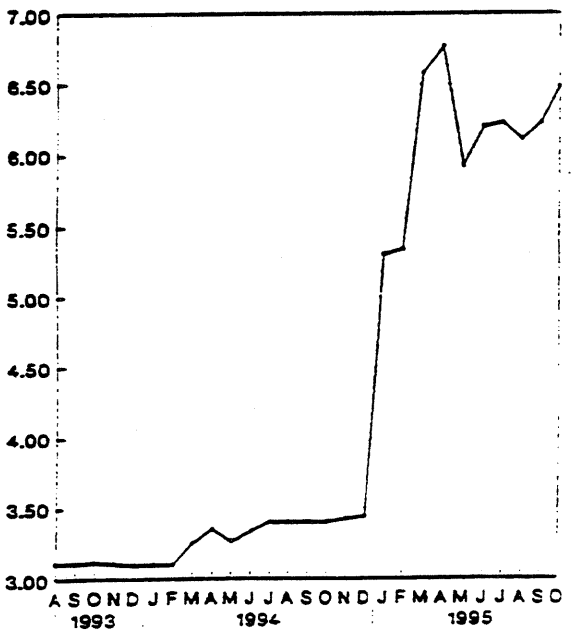
UNITED STATES EXCHANGE RATES

JAPANESE YEN GERMAN MARK



August 1993 was the beginning of the International report.

MEXICAN PESO



NEW ZEALAND DOLLAR



An upward trend line indicates a stronger US dollar.

LIVESTOCK, DAIRY AND POULTRY SITUATION AND OUTLOOK

October 23, 1995

MEXICO BUYS NONFAT DRY MILK

Mexico contracted for almost 12,000 tons of nonfat dry milk just as the July-September interim Dairy Export Incentive Program (DEIP) expired. The product will be delivered in October-November and will relieve much of the supply pressure that kept nonfat dry milk prices near the support purchase price. If DEIP activity is substantial under the new allocations, nonfat dry milk prices could rise. Mexico, one of the largest DEIP customers in recent years, had not purchased nonfat dry milk since last winter. Mexican stocks of imported dry milk remained high, despite heavy food aid use. Sales of nonfat dry milk in Mexico's domestic commercial market fell sharply because of higher international prices, peso devaluation, and economic weakness. Although Mexican stocks apparently have been reduced, imports are not likely to return to the levels of recent years.

New DEIP allocations were recently announced, with sales to Asia expected by late 1995. However, sales to Algeria or additional sales to Mexico are uncertain. Exports under DEIP during the rest of 1995 will be smaller than a year earlier. Under GATT, subsidized exports are limited and will never again approach 1995 levels.

Unsubsidized butter exports are projected to be small during the rest of 1995. Commercial exports were substantial earlier in the year, but recent domestic price increases have made U.S. butter uncompetitive on international markets. Exports are not expected to resume until domestic markets weaken seasonally at the end of 1995.

World production of milk and dairy products is projected to be large in 1995. However, strong consumption in major exporting countries is limiting supplies on the international markets. Stocks of butter and nonfat dry milk are projected to decline even further in 1995 to half the volume of the early 1990's.

QUARTERLY AND ANNUAL FORECASTS

Item	1995 IV	1996 I	1996 II	ANNUAL	
	1995	1996	1996	1995	1996
Supply/Demand (mt basis)	38,855	40,269	41,905	157,038	161,549
Milk Production	39,500	40,165	41,000	156,088	162,015
Commercial use	127	(5)	246	2,143	590
Net removals					
Market Prices					
Milk, all at plant	13.10-13.50	12.50-13.50	11.50-12.50	12.50-12.70	12.20-13.20
Milk, Basic Formula Price (BFP)	12.00-12.40	11.60-12.40	10.60-11.40	11.60-11.80	11.20-12.20

Million pounds

Dollars per cwt.

Source: Economic Research Service, USDA, Washington, DC.

COMMERCIAL AND GOVERNMENT STORAGE HOLDINGS, JANUARY 1994 TO DATE

Month	Butter				Natural American Cheese				Nonfat Dry Milk									
	Total 1/		Commercial	Government	Total 1/		Commercial	Government	Total 1/ 2/		Commercial	Government 2/						
	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994						
	Million Pounds																	
January	90	251	25	26	64	225	326	347	325	346	2/	1	141	87	115	79	26	7
February	88	243	26	19	63	224	329	328	329	327	2/	1	122	81	94	76	28	5
March	75	254	23	19	51	235	331	319	331	318	2/	1	125	67	98	64	28	3
April	79	266	29	30	50	236	335	326	335	325	2/	1	154	90	127	87	27	3
May	81	281	39	30	42	251	344	351	344	351	2/	1	155	125	129	124	26	1
June	79	275	43	24	36	252	340	358	340	357	2/	2/	164	149	142	145	22	4
July	68	246	45	21	24	225	361	347	361	347	2/	2/	162	160	140	146	21	14
August	50	207	32	21	18	186	339	327	339	327	2/	2/	122	152	102	120	19	32
September	32	163	22	18	10	145	317	311	317	310	2/	1	135	135	98	98	38	38
October		125		11		114		313		312		1	132	132	93	93	39	39
November		85		10		75		310		309		2/	121	121	89	89	32	32
December		79		12		67		310		309		1	131	131	103	103	28	28

1/ Total may not add due to rounding. 2/ Includes instant nonfat dry milk. 3/ Less than 500,000 lbs.

COMMERCIAL AND GOVERNMENT STORAGE HOLDINGS FOR THE UNITED STATES 1/

Commodity	Aug 31, 1993		Aug 31, 1994		Aug 31, 1995		Sep 30, 1993		Sep 30, 1994		Sep 30, 1995	
	Thousand Pounds											
Butter	21,057	20,585	32,128	18,613	18,367	21,945						
Natural American Cheese	392,142	327,008	339,138	386,723	310,203	316,692						

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

SOURCE: "Cold Storage," Co St 1 (10-95) and "Dairy Products," Da 2-6 (10-95), Agricultural Statistics Board, National Agricultural Statistics Service; and "Summary of Processed Commodities in Store," Agricultural Stabilization and Conservation Service.

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	AUG 31, 1993	AUG 31, 1994	REVISIED AUG 31, 1995
Cream	1,415	1,175	1,371
Butter	473,257	206,567	50,249
Evap. & Cond. Milk	2,209	1,997	2,118
Cheese, Natural American	395,456	327,492	359,340
Cheese, Swiss	13,446	8,974	7,250
Cheese, Other Natural	108,833	138,189	111,518

CHEESE, NATURAL AMERICAN	395,425	316,941	10,659
Butter	388,768	311,278	8,488
Evaporated & Condensed Milk	101,128	133,258	7,185

COMMODITY	SEPT 30, 1993	SEPT 30, 1994	SEPT 30, 1995

SEPTEMBER COLD STORAGE HOLDINGS BY REGION			
REGION	1993	1994	1995
Natural American Cheese	395,425	316,941	10,659
Butter	388,768	311,278	8,488
Evaporated & Condensed Milk	101,128	133,258	7,185

Other Natural Cheese	1993	1994	1995
Swiss Cheese	1993	1994	1995
Other Natural Cheese	1993	1994	1995

COMMODITY	SEPT 30, 1993	SEPT 30, 1994	SEPT 30, 1995

REGIONS	1993	1994	1995
TOTAL	388,768	311,278	10,659
New England	18,061	18,648	1,612
Middle Atlantic	43,618	37,176	609
East North Central	223,373	169,127	6,961
West North Central	60,519	43,461	555
South Atlantic	313	350	73
East South Central	251	221	40
West South Central	36	318	0
Mountain	20,293	23,660	706
Pacific	22,304	18,317	103
TOTAL	395,425	316,941	10,659
New England	2,422	3,232	3,009
Middle Atlantic	8,780	4,933	5,867
East North Central	67,474	19,108	3,968
West North Central	231,729	90,690	7,565
South Atlantic	7,501	2,386	610
East South Central	2,534	1,403	608
West South Central	12,925	14,250	3,999
Mountain	6,460	2,807	1,008
Pacific	55,800	24,545	5,041
TOTAL	395,425	316,941	10,659

GOVERNMENT OWNED COLD STORAGE HOLDINGS FOR THE U.S.			
COMMODITY	AUG 31, 1993	AUG 31, 1994	REVISIED AUG 31, 1995
Butter	452,200	185,982	18,121
Natural American Cheese	3,314	484	202

COMMODITY	SEPT 30, 1993	SEPT 30, 1994	SEPT 30, 1995

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

INTERNATIONAL DAIRY MARKET NEWS

Information gathered October 16 - 27, 1995

Prices are U.S. Dollars per 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 EUROPE

OVERVIEW: The two main news items in Europe are the weakness of the U.S. dollar and strong milk production levels in many EU countries. Milk production in the EU has continued to increase above last year's levels due to mild weather and adequate rain throughout many regions of Europe. The UK has been short of rain this summer and feedstuffs are tight. In most countries, milk production is higher and it is expected to be above their quota levels. If this continues through the marketing year, farmers may be responsible for superlevies for over production. During most of October, the U.S. dollar has lost ground against most EU currencies, especially during the latter part of the month. This tends to increase the prices for commodities in U.S. dollars even in a steady market.

BUTTER: The butter markets are strong. Prices are steady to slightly higher. Export activity is very light to nonexistent. Most exporters report that butter most likely will not be exported at these price levels. Butter is available in Western Europe, but stocks are light. Russian buyers have been the most active and are still interested in some additional butter. Most of the extra butter in Eastern Europe has been sold to Russian buyers at lower price levels. Butter production during the first eight months of 1995 was at 1,187,000 MT, an increase of 5.4% from the same time last year.

82% BUTTERFAT:	2.500 - 2.650
99% BUTTERFAT:	2.700 - 3.000

SKIM MILK POWDER (SMP): The SMP market is firm. Domestic demand is very good from the food and feed industries. Stocks are light, but adequate for all needs. Export demand is light and sales activity is slow. Mexico did buy a large amount of SMP from Europe, the U.S., and Canada for shipment over the next two or three quarters. However, most exporters are reporting light export interest from other areas and they are uncertain when sales will improve. January through August 1995 EU SMP production totaled 892,900 MT, an increase of 2.3% from last year.

1.25% BUTTERFAT:	2.300 - 2.365
------------------	---------------

WHOLE MILK POWDER (WMP): This is a firm market. Prices continue to trend upward slowly. Export sales activity is limited due to relatively high prices. Domestic demand is good and stocks are in good balance. Buyers in South American countries and some Eastern European countries have been active. January through August EU WMP production totaled 670,900 MT, an increase of 1.7% compared to January - August 1995.

26% BUTTERFAT:	2.350 - 2.400
----------------	---------------

SWEET WHEY POWDER: The whey market is firm. Prices continue to be too high for export interest. U.S. and Canadian manufacturers are continuing to export and are increasing prices to a level of US\$510 to 550/MT. Stocks are balanced in the European market and tight in the U.S. market. Whey powder production in Germany, France, the Netherlands, and Finland was at 598,800 MT, from January - July, an increase of 6.8% from last year.

NONHYGROSCOPIC:	700 - 720
-----------------	-----------

EASTERN EUROPE

OVERVIEW: Milk production conditions in Eastern Europe have been good the past month. However, dairy stocks are light to short of current needs. Russian buyers continue to procure butter that is priced favorably. During this week, there were no offers of butter uncovered. Skim milk

powder is still being offered to the Western region at prices between US\$1,050 to 2100/MT, depending on quality. Cheese is trading on a limited basis between the two regions. Hard natural cheese is priced between US\$1,100 and 3,120/MT.

OCEANIA

OVERVIEW: The Oceania market is cautious. Due to the slow milk production start this season, there are few spot offers for dairy commodities being reported. Manufacturers and suppliers seem careful in offering any extra dairy products. Weather conditions have improved the past month in most dairy regions in each country. Therefore, current production levels are catching up with last year and milk production is close to the seasonal peak. There are no reports of plants running close to or above capacity. Lastly, milk production is expected to be 2 to 4% above last year in Australia and New Zealand.

BUTTER: This is a steady to firm market. Prices moved upward slightly. Sales activity is light mainly due to the balanced stock position reported in each country. Demand is good for any extra butter that is available at these price levels. Production of butter is heavy at this time of year.

82% BUTTERFAT:	2.100 - 2.250
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CHEDDAR CHEESE: This is a steady to a balanced market. Stocks are adequate for all trade needs. Prices are unchanged and holding at these levels. Buying activity is good, but sales are limited to regular buyers. Currently, prices appear to be better for butter and SMP production compared to cheese sales.

39% MAXIMUM MOISTURE:	2.000 - 2.200
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SKIM MILK POWDER (SMP): This is a steady market. Prices are unchanged. Sales activity is good and most of the production for this quarter has been sold. Future production is expected to be procured by regular customers. Current production levels are seasonally strong. Stocks levels are light and in good balance at most locations. However, a few manufacturers are sold-out and short of current needs.

1.25% BUTTERFAT:	2.150 - 2.300
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WHOLE MILK POWDER (WMP): The whole milk powder market is steady to firm. Sales have been good enough to keep stocks in a balanced to sold-out position. Current sales are light, but there is still interest at these price levels. WMP production is light. Butter and skim milk powder is a better return than WMP production.

26% BUTTERFAT:	2.200 - 2.350
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Exchange rates for selected foreign currencies: October 24, 1995

.6405 Dutch Guilder	.7174 German Mark
.2046 French Franc	.6585 New Zealand Dollar
.1481 Mexican Peso	.7477 Australian Dollar
1.5790 British Pound	.0099 Japanese Yen
.4111 Polish Zloty	

To compare the value of 1 US Dollar to Mexican Pesos: (1:1481) = 6.7521. That is 1 US Dollar equals 6.7521 Mexican Pesos.

Source: Wall Street Journal

COFFEE, SUGAR & COCOA EXCHANGE FUTURES

CHEDDAR CHEESE FUTURES

		DAILY HIGH	LOW	SETTLING PRICE	CHG FROM PREVIOUS DAY	OPEN INTEREST PREVIOUS DAY	VOLUME PREVIOUS DAY		
		THURSDAY, OCTOBER 12, 1995		FRIDAY, OCTOBER 13, 1995		MONDAY, OCTOBER 16, 1995		TUESDAY, OCTOBER 17, 1995	
NOV95		137.00	137.00	135.50	0	31	0		
FEB96				125.50	0	9	0		
MAY96				125.50	0	0	0		
JUL96				125.50	0	0	0		
TOTAL				125.50	0	40	0		
NOV95				130.30	200	28	4		
FEB96				125.50	0	9	0		
MAY96				126.00	50	0	0		
JUL96				126.30	50	0	0		
TOTAL				126.30	50	37	4		
NOV95				139.00	70	27	0		
FEB96				126.70	120	9	0		
MAY96				126.00	0	0	0		
JUL96				126.00	-30	0	0		
TOTAL				126.00	-30	36	0		
NOV95				139.30	30	27	0		
FEB96				126.00	10	9	0		
MAY96				126.50	50	0	0		
JUL96				126.50	50	0	0		
TOTAL				126.50	50	36	0		
NOV95				139.50	-20	27	0		
FEB96				125.70	-110	9	0		
MAY96				126.50	0	0	0		
JUL96				126.00	-50	0	0		
TOTAL				126.00	-50	36	0		
NOV95				139.30	20	25	2		
FEB96				125.00	-70	9	0		
MAY96				126.50	0	0	0		
JUL96				126.00	0	0	0		
TOTAL				126.00	0	34	2		
NOV95				140.00	80	25	0		
FEB96				125.50	80	10	1		
MAY96				126.00	30	0	0		
JUL96				126.30	30	0	0		
TOTAL				126.30	30	35	1		
NOV95				140.00	-10	13	12		
FEB96				125.50	-30	16	6		
MAY96				126.50	-30	0	0		
JUL96				126.50	20	0	0		
TOTAL				126.50	20	29	18		
NOV95				141.00	110	13	0		
FEB96				126.60	110	16	0		
MAY96				126.50	0	0	0		
JUL96				126.50	0	0	0		
TOTAL				126.50	0	29	0		
NOV95				143.30	220	9	4		
FEB96				126.50	-10	23	7		
MAY96				125.50	-100	8	0		
JUL96				125.50	-100	0	0		
TOTAL				125.50	-100	40	11		

Information System after 3:30 pm. CT. Dial 608-224-5088; for cheese. press 1 - 1 - 6 or for NDM, press 1 - 2 - 7

NONFAT DRY MILK FUTURES

		DAILY HIGH	LOW	SETTLING PRICE	CHG FROM PREVIOUS DAY	OPEN INTEREST PREVIOUS DAY	VOLUME PREVIOUS DAY		
		THURSDAY, OCTOBER 12, 1995		FRIDAY, OCTOBER 13, 1995		MONDAY, OCTOBER 16, 1995		TUESDAY, OCTOBER 17, 1995	
NOV95				104.50	0	9	0		
FEB96				105.00	0	1	0		
TOTAL				105.00	0	10	0		
NOV95				104.50	0	9	0		
FEB96				105.00	0	1	0		
TOTAL				105.00	0	10	0		
NOV95				106.00	150	9	0		
FEB96				105.00	0	1	0		
TOTAL				105.00	150	10	0		
NOV95				106.00	0	9	0		
FEB96				105.00	0	1	0		
TOTAL				105.00	0	10	0		
NOV95				105.00	-20	9	0		
FEB96				105.00	0	1	0		
TOTAL				105.00	-20	10	0		
NOV95				105.00	0	9	0		
FEB96				104.00	-20	2	1		
TOTAL				104.00	-20	11	1		
NOV95				105.00	0	9	0		
FEB96				104.00	0	2	0		
TOTAL				104.00	0	11	0		
NOV95				105.00	0	9	0		
FEB96				104.00	0	2	0		
TOTAL				104.00	0	11	0		
NOV95				106.00	200	9	0		
FEB96				107.00	220	2	0		
TOTAL				107.00	220	11	0		
NOV95				107.90	10	4	5		
FEB96				105.00	-200	4	2		
TOTAL				105.00	-200	8	7		

NORTHEAST, SOUTHEAST, AND NATIONAL MILK PRODUCTS

All reports represent carlot/trucklot quantities in 50 lb., 100 lb., or 25 kg. bags, spray process, dollars per pound, unless otherwise specified. Delivered Southeast is delivered equivalent Atlanta.

NONFAT DRY MILK - NORTHEAST AND SOUTHEAST

Prices are steady to higher and remain nominal. Production levels are very light in the Northeast and Southeast. Surplus milk remains well below anticipated volumes. Plant stocks are tight and most producers have little or no powder on hand for spot sale. Some producers have bought NDM from resellers and/or Western producers to supplement their production. Local producers are hoping that milk production increases, but few think that drying schedules will improve very much before Thanksgiving. Demand is good to very good and many inquiries are going unsatisfied. Contacts state that many cheese makers are actively looking for additional volumes.

Includes EXTRA GRADE and GRADE A, all base treatments

F.O.B. NORTHEAST:	1.0700 - 1.1300
DELVD SOUTHEAST:	1.0950 - 1.1400

DRY BUTTERMILK - NORTHEAST AND SOUTHEAST

Prices are steady to higher and remain nominal. Locally, production levels are generally light and plant stocks are closely balanced. Most producers have little or no powder on hand for spot needs. Buyers who need spot loads are looking to resellers and/or producers in other regions as sources for product. However, Western and Midwestern producers also have limited quantities available for immediate shipment.

F.O.B. NORTHEAST:	.8700 - .9000
DELVD SOUTHEAST:	.8600 - .9125

DRY WHOLE MILK - NATIONAL

Prices are steady to higher and remain nominal. Production levels are often lighter. Many producers have lighter volumes of surplus milk. Others who have completed contracts have stopped making whole milk powder until more orders are placed. Plant stocks are very well balanced; often tight. Demand is fair and mostly contractual. Few spot sales are being reported. DEIP activity has been and is rather slow.

F.O.B. PRODUCING PLANT:	1.1650 - 1.2400
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INTERIM DEIP BID ACCEPTANCE SUMMARY

JULY 1, 1995 THROUGH OCTOBER 20, 1995
WITH CHANGES FROM PREVIOUS REPORT

NONFAT DRY MILK	-	24,899 MT (54,892,335 LBS)
CHANGE	-	202 MT (445,329 LBS)
WHOLE MILK POWDER	-	2,875 MT (6,338,225 LBS)
CHANGE	-	30 MT (66,138 LBS)
CHEESE	-	1,167 MT (2,572,768 LBS)
CHANGE	-	45 MT (99,207 LBS)

DRY WHEY - NORTHEAST AND SOUTHEAST

Prices are generally higher and remain nominal. Production levels are steady to lighter and plant stocks are tight. Most Northeastern producers are accepting orders, but delivery periods range from 2 - 4 weeks from now. The market tone is very firm. Contacts wonder how long prices can keep going up. There are few, if any, signs of slow down in the near future. Price resistance is evident, but having little effect on sales. Domestic interest is holding relatively good. Export inquiries remain active, but at current prices, fewer new sales are being finalized.

F.O.B. NORTHEAST:	EXTRA GRADE	.2525 - .2575
	USPH GRADE A	.2550 - .2600
DELVD SOUTHEAST:		.2550 - .3050

ANIMAL FEED WHEY - NORTHEAST

Prices remain too few to report. The market tone continues to be quite firm. Offerings of edible or "off grade" whey to animal feed makers are tight. Buyers appear reluctant to make additional spot purchases at current prices. However, any offerings that do occur are quickly cleared.

F.O.B. NORTHEAST:	MILK REPLACER	TFEWR
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EVAPORATED MILK - NATIONAL

Prices and the market tone are unchanged. Production levels are generally steady. Some areas of the country are experiencing milk supply problems and manufacturing plant receipts are lighter than desired. Plant stocks are adequate for current needs. However, with holiday orders being placed, some producers wonder if there will be enough milk and inventories to cover all needs. At this point, most feel that all orders will be filled. Demand is fair to improved as stores start to feature canned evaporated milk for Thanksgiving. The Kansas City Commodity office announced the issuance of EVD-1, invitation 1530 inviting competitive offers to sell to CCC 39,836 cases (1,593,440 pounds) of evaporated milk for shipment in December 1995.

DOLLARS PER 48 - 12 FLUID OUNCE CANS PER CASE DELIVERED MAJOR U.S. CITIES	\$19.25 - 29.50
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Excluding promotional and other sales allowances. Includes new price commitments.

CASEIN - NATIONAL

The casein markets are steady to firm. Prices are unchanged for both rennet and acid. Supplies are very tight. Buyers are reporting that they are obtaining adequate supplies, but there are no additional stocks available. Suppliers report a tight to short market. The January through June 1995 imports total 27,647 metric tons, down from 42,838 metric tons during the same period in 1994.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET:	2.5000 - 2.8000
ACID:	2.5500 - 2.8000

CENTRAL AND WEST DRY MILK PRODUCTS

All reports, except California manufacturing plants, were released 10/26/95 and represent FOB Central and Western production areas. Prices represent C/LTL quantities in 50 lb., or 25 kg. bags, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL

Nonfat dry milk prices continue to increase. The market tone is firm. Current production is light as manufacturers are keeping milk in cheese plants, filling fluid channels and selling condensed skim. Prices in the West are higher, allowing producers in the Central States to increase prices and remain competitive. However, even with the higher prices, few plants are able to offer NDM. Demand is fair to good from cheese producers. Plant stocks are light to moderate in the region, but are mainly committed.

NONFAT DRY MILK: 1.0700 - 1.1100 MOSTLY: 1.0800 - 1.1000

DRY BUTTERMILK - CENTRAL

Buttermilk prices are higher and the market tone is firmer. Contacts are noting increased interest for buttermilk with some export inquiries. Current production is limited as sales of condensed buttermilk remain good. Increasing churning schedules are expected as butter prices are higher and more cream is available. Stocks are light for recent production, moderate for older powder.

BUTTERMILK: 9425 - 9875

DRY WHEY - CENTRAL

Dry whey prices continue to increase. The market tone remains firm to stronger. The limited availability of spot trades in the region is not allowing the market to be fully tested. Most plants are able to remain current on contracts with a little schedule juggling and have few, if any, loads available for spot sales. Production is mostly level. Producers are expecting output to increase shortly, but are still waiting for that to happen. The availability of condensed whey and whey solids is very light and priced very high. Plant stocks are light and many producers are over committed.

NOTE: Report 42 price range corrected to 50.2450 - 0.2650.

ANIMAL FEED WHEY - CENTRAL

NONHYGROSCOPIC: 2500 - 2700 MOSTLY: 2590 - 2600

Prices continue to firm and remain normal for all feed whey. The market tones reflect higher prices for edible whey and WPC. Milk replacer offerings are limited and generally clear when offered. Standard prices are too few to report, but are trending higher. Roller ground demand remains good. Offerings are clearing. Deltacose whey demand is good. Availability is light to fair.

LACTOSE - CENTRAL AND WEST

MILK REPLACER: 2350 - 2450
STANDARD: 2200 - 2525
ROLLER GROUND: 2200 - 2525
DELTAPOSE (Milk, 20% protein): 2200 - 3350

Lactose prices are mostly steady. The market tone remains firm. Lactose offerings are generally in good balance with demand. Some producers are having difficulties in committing all of their production at the price they would like, but the overall market is firm. Offerings are available from many sources in the industry but few are uncomfortable with their inventory position. Stocks are more available in the Midwest than in other regions.

NONFAT DRY MILK - WEST

Prices and the market tone continue to firm. Plants' spot offerings in both the West and Central Regions remain limited and some plants are having trouble meeting contract sales. Regular buyers are being serviced in a timely basis. The availability of outside whey for processing remains light. Production levels are generally steady with past weeks. Plant stocks are light and held with confidence.

EDIBLE 34% PROTEIN: 6500 - 6850 MOSTLY: 6625 - 6725

DRY BUTTERMILK - WEST

Buttermilk powder markets are firm as prices edge higher. Supplies of powder are light due to low butter/NDM production. Most producers are sold out. Domestic and export buying interest is strong for the limited volumes.

BUTTERMILK: 8150 - 8375 MOSTLY: 8200 - 8300

DRY WHEY - WEST

Prices continue to increase for Western whey powder. Export sales continue at very good levels. Domestic sales are improving as buyers that had been holding out before making additional purchases are now forced back into the market due to minimal stocks. Some contacts are commenting that there are very few complaints about higher prices and that most buyers are just happy to get the powder. Production is not up to expectations at many operations which is leading to delivery delays on powder sold a while ago.

NONHYGROSCOPIC: 2175 - 2400 MOSTLY: 2275 - 2350

CALIFORNIA MANUFACTURING PLANTS

The weighted average price for Extra Grade and Grade A Nonfat Dry Milk for the seven day period ended October 23, on powder sales of 6,774,136 pounds f.o.b. California manufacturing plants was \$1.0496 per pound. This compares to 8,639,136 pounds at \$1.0472 for the previous week ending October 16, 1995. Prices for both periods were influenced by the effect of long-term contract sales. Compiled by the Milk Stabilization Branch, California Department of Food and Agriculture.

Dairy Cow & Total Cow Slaughter Under Federal Inspection by Regions & U.S. for Week Ending 10/07/95 & Comparable Week 1994

Regions*	1	2	3	4	5	6	7	8	9	10	U.S. TOTAL	% DAIRY OF ALL
1995-Dairy cows HD (000)	0.3	1.1	6.7	4.8	19.1	2.8	5.4	1.7	9.4	3.0	54.3	2,140.6
1994-Dairy cows HD (000)	0.4	1.2	7.0	5.7	19.5	3.2	5.9	2.2	8.0	2.8	56.0	2,163.8
1995-All cows HD (000)	0.3	1.1	9.0	12.7	27.2	19.9	19.7	11.0	12.3	6.6	119.9	4,279.2
1994-All cows HD (000)	0.4	1.2	9.0	13.8	27.3	22.6	18.6	10.5	10.9	6.3	120.7	4,273.1

*For source, states included in each region, and historical data, see "Dairy Market News", Vol. 55, Report No. 31

FLUID MILK AND CREAM REVIEW

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

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

Delivered Equivalent:

Major Northeast Cities	1.3132 - 1.4798
Atlanta	1.4275 - 1.5296 M 1.4275-1.4795

SPOT PRICES OF CLASS II CONDENSED SKIM, \$ PER LB WET SOLIDS

Delivered Equivalent:

Major Northeast Cities	1.1700 - 1.2250
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SOUTHEAST

Milk production seems to be rebounding slightly in many areas of the Southeast. Cooler weather has helped give output the boost that many have been looking for. Suppliers are still importing milk from surrounding states, but contacts hope that their need for "outside" milk will be slowing during the coming weeks. Florida suppliers brought in 310 loads this week. Some contacts feel that last week and this week may be the peak for milk imports. This week, milk is coming into the region from MD, PA, VA, TX, WI, and NM. Currently, bottling plants have all the milk they need and orders for imports may be lighter next week. Contacts in other states are also importing milk, but their orders are lighter than past weeks. However, milk supplies are balanced for Class I needs. Manufacturing plant receipts remain very light and operating schedules are limited. The fluid cream market remains very firm and prices are generally higher. Demand is good, but some buyer resistance to the rapidly increasing prices is evident. Ice cream production is seasonally fair to good. Cream cheese output is increasing as holiday orders are being filled and shipped. Churning activity is limited.

NORTHEAST

Milk production throughout the Northeast is mostly steady to slightly higher. Despite the slightly higher output, fluid milk supplies are generally termed as very tight. Bottlers have enough to meet their needs, but manufacturers are, for the most part, running on reduced schedules. Bottled milk sales are holding up quite well in most parts of the region. Grade A milk shipments to Florida and other Southeastern states continue. More than twenty loads per day are being shipped to Southeastern buyers from the Middle Atlantic area. Consequently, surplus milk volumes in the Northeast range from light to very tight. Some plants have little or no milk to process and they are becoming more concerned about meeting their manufactured product commitments. Condensed skim spot sales remain sluggish and prices are unchanged. The fluid cream market is very firm. Increasing butter prices are forcing cream prices higher, but, in some cases, multiples moved a little lower to help temper increases. Because of the tighter fluid milk supplies, cream offerings are also lower. Any offerings are easily cleared to Class II and III outlets. Ice cream output and sales are seasonally light to fair. Cooler weather has hurt consumption patterns, particularly soft serve. Demand has improved from cream cheese makers who are building inventories and/or filling orders for the upcoming holiday season. Churning activity is light and some producers are barely able to meet commitments.

WISCONSIN

SPOT SHIPMENTS:	LOADS
OCTOBER 20 - 26, 1995	55
PREVIOUS WEEK	50
COMPARABLE WEEK IN 1994	0

DESTINATIONS: ALABAMA 28, FLORIDA 27

Milk supplies are very tight throughout the upper Midwest. Class I sales were typically steady to slightly improved, depending on location. Handlers and cheese plant operators continue to seek, and pay premiums over class to acquire extra milk. Due to a brief plant shutdown for renovations, spot manufacturing milk prices varied from a low of \$1.35 over delivered, to mostly \$1.70 to about \$2.20 over class. Shipments of Midwestern fluid milk to the Southeast continue though most forecasters anticipate the need to decline in upcoming weeks. Combined with lower plant milk receipts, some orders, typically manufactured products, may go partially unsatisfied. Cream prices are higher, reflecting the increase in butter prices at the Mercantile. Reported prices range from \$1.4896-1.5190 per pound butterfat. Fat and protein tests are at good seasonal levels. Recent precipitation slowed farmers in their quest to finish fall harvest and tillage operations.

WISCONSIN LIVESTOCK AUCTIONS (PER CWT.)

	OCT 15 - 25	PREVIOUS YEAR
SLAUGHTER COWS	\$ 31.50-38.00	\$ 37.00-42.00
REPLACEMENT HEIFER CALVES	\$150.00-185.00	\$200.00-245.00

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

	OCT 19 - 25	PREVIOUS YEAR
SLAUGHTER COWS	\$ 32.50-39.00	\$ 38.00-42.25

WEST

California pool receipts for milk during September totaled 1.9 billion pounds, down 1.3% from August on a daily average basis. September receipts are down 1.3% from September 1994, the largest year to year percentage decline in over ten years. Production during the first nine months of 1995 totals 18.1 billion pounds, 1.3% higher than the same period in 1994. The blend price at a fat test of 3.52% is \$11.87, 40 cents higher than last month. Class I products absorbed 25.1% of the total receipts. The quota price is \$12.93, 28 cents higher than last month and 52 cents higher than September 1994. The base and overbase prices are \$11.23, also 28 and 52 cents higher than last month and year respectively. Weather conditions throughout most areas of the Southwest have moderated and become more seasonable. Temperatures are warm during the day, but cool at night. Production is basically holding steady. Milk volumes are not excessive of current needs. Class I needs are being filled, but additional volumes clearing to manufacturing facilities are lighter than milk handlers would like. Rains are not quite as prevalent in the Pacific Northwest, but conditions are still very wet. Temperatures remain quite warm. Output is below expectations at most operations. Manufacturing plants are operating on reduced schedules. Producers continue to complain about the cost/price squeeze. Both NDM and butter are moving extremely well with most shipments being delayed because of lack of product. Temperatures are seasonally cooler in the Mountain States region. Most field work is done for the year. Concern is noted over hay prices that are relatively high for this early in the hay feeding season. Some light snow has fallen over parts of the region. Reservoirs are at excellent levels for this time of year and should mean a good base on which to plan next year's crops on.

CHEESE MARKETS

NORTHEAST

WEST

Prices are fractionally higher on most natural cheddar and process cheeses; unchanged on Swiss. The market tone remains firm, but contacts still express concern about continually rising prices. However, surplus milk availability is limited in some areas, cheese production levels are light, producer stocks are closely balanced, and demand is starting to show some seasonal improvement. These factors are combining to keep the cheese market firm. Locally, cheese output is light to moderate and availability is adequate. Buyers are taking only weekly volumes, but orders for holiday needs are starting to improve. Process cheese sales are good to very good for food service needs.

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

Cheddar 10# Prims	1.5850-1.9050
Cheddar Single Daisies	1.5575-1.9000
Cheddar 40# Block	1.5525-1.7100
Process 5# Loaf	1.5750-1.7325
Process 5# Sliced	1.6125-1.7825
Muenster	1.5950-1.9100
Grade A Swiss Cus 10 - 14#	1.9500-2.3675

MIDWEST

The cheese market is steady to firm. At the National Cheese Exchange on October 20, the barrel option increased 1/4 cent to \$1.3825, the 40# blocks advanced 3/4 cent to \$1.4225, and 640's rose 3/4 cent to \$1.4125. Most traders expect options to continue to increase slightly in the short term, mainly to keep buyers interested in cheese purchases during the fall peak sales season. The volume of orders is steady to heavier, though often the average size is lower. Process movement is steady to slower, down in areas where food service promotions have been completed. Cheddar offerings are at least adequate for needs. Top grades of Swiss are short of needs with lower grades more available. Mozzarella remains tight to barely adequate. Muenster offerings are adequate at best. With spot milk asking prices more than \$2.00 over Class, more cheese makers are making due with only their patron milk supplies. Milk makes are steady to lower.

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

Process American 5# Loaf	1.6300-1.6600
Brick And/Or Muenster 5#	1.6700-1.8800
Cheddar 40# Block	1.6600-1.7775
Monterey Jack 10#	1.7775-1.8725
Blue 5#	2.0200-2.2300
Provoline 10 - 12#	1.7900-1.9100
Mozzarella 5 - 6# (Low Moisture, Part Skim)	1.7400-1.7775
Grade A Swiss Cus 6 - 9#	2.1100-2.3575

Natural and process prices continue to increase fractionally. Increases total about 18 cents since the end of July. Demand is more aggressive as some buyers that had been sitting on the sidelines are now being forced back into a rising market because of depleted stocks. The gamble, that prices would start to weaken by now, did not work. Limited amounts of current cheese are available. Aged cheese is hard to find. Swiss demand is good with the tightest situation for top grades. Some manufacturers are cutting back on operating schedules because of lower milk receipts.

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

Process 5# Loaf	1.5800-1.8200
Cheddar 40# Block	1.6275-1.7000
Cheddar 10# Cus	1.7500-2.0425
Monterey Jack 10#	1.7725-1.9025
Grade A Swiss Cus 6 - 9#	2.1100-2.3225

FOREIGN TYPE CHEESE

Prices are unchanged to fractionally higher. The market tone is relatively firm. Some styles/varieties are in tight supply and prices are moving higher; others are adequate. Demand is starting to improve along seasonal patterns. Retail movement is fair. Prices of some imported styles are often prohibitive and more buyers are looking to domestically produced brands that are often less expensive.

WHOLESALE SELLING PRICES: FOB DISTRIBUTORS DOCK
(1000 - 5000 POUNDS MIXED LOTS)

VARIETY IMPORTED DOMESTIC

Roquefort	5.5000-6.8900
Blue	2.6400-3.1400
Gorgonzola	3.2400-5.9400
Fontina (Italy)	7.9900-8.3000
Romano (Italy)	2.1000-2.9000
Provoline (Italy)	3.4400-5.5000
Romano (Cows Milk)	2.6500-3.2900
Sardo Romano (Argentine)	2.6500-3.2900
Reggiano (Argentine)	2.6500-3.2900
Jarlsberg-(Brand)	2.7400-3.1200
Swiss Cus Switzerland	-0-
Swiss Cus Finnish	2.5900-2.7200
Swiss Cus Austrian	2.0500-2.6500
Edam	-0-
2 Pound	2.1900-3.0900
4 Pound	2.1900-3.0900
Gouda, Large	2.3900-3.1500
Gouda, Baby (S/Dozen)	27.8000-31.7000

* = Price change.

CONSUMER PRICE INDEX (CPI-U) AND AVERAGE RETAIL PRICES FOR SELECTED PRODUCTS, U.S. CITY AVERAGE 1/

Month and Year	All Food		Dairy Products		Fresh Whole Milk		Cheese		Other Dairy Products		Meat, Poultry, Fish and Eggs	
	CPI 2/	Pct. Chg. 3/	CPI 2/	Pct. Chg. 3/	CPI 2/	Pct. Chg. 3/	CPI 2/	Pct. Chg. 3/	CPI 2/	Pct. Chg. 3/	CPI 2/	Pct. Chg. 3/
JULY 1995	148.1	2.7	132.9	0.8	130.7	-0.5	139.1	2.1	115.7	2.8	137.3	0.4
AUG 1995	148.4	2.5	132.8	0.8	131.0	0.5	138.3	1.1	115.9	2.0	138.7	1.2
SEPT 1995	148.9	2.7	132.3	0.8	130.1	0.6	137.8	0.7	116.3	3.1	139.5	1.6

U.S. City Average Retail Prices												
Month	Whole Milk 4/		Lowfat Milk 4/		Butter 5/		Process Cheese 6/		Natural Cheese 7/		Ice Cream 8/	
	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994	1995	1994
	Dollars											
JULY	1.419	1.441	NA	NA	1.621	1.604	3.078	3.063	3.418	3.328	2.665	2.665
AUG	1.425	1.440	NA	NA	1.617	1.633	2.985	3.096	3.434	3.381	2.667	2.646
SEPT	1.437	1.410	NA	NA	1.605	1.648	3.029	3.048	3.347	3.390	2.683	2.665

NA = Not available. 1/ "CPI Detailed Report," "Consumer Prices: Energy and Food," BLS, U.S. Department of Labor. According to BLS, average prices are best used to measure the price level in a particular month. To measure price change over time, the CPI is more appropriate. 2/ The standard reference base period for these indexes is 1982-1984 = 100. 3/ Percent change over previous year. 4/ Per 1/2 gallon. 5/ Per pound. Grade AA, salted, stick butter. 6/ Per pound, any size and type of package. 7/ Per pound, cheddar cheese in any size and type of package and variety (sharp, mild, smoked, etc.). 8/ Per 1/2 gallon, prepackaged regular.

BUTTER MARKETS

NORTHEAST PRINT BUTTER - GRADE AA

Prices are five cents higher and the market remains firm and unsettled. Some printers and/or distributors are having to reach further and pay more for any bulk that might be available. Apparently, this situation had an impact on trading at the Chicago Mercantile Exchange on October 20. Many contacts are also concerned that retail sales will soon suffer because prices are moving too high. Retail movement had been very good before prices started their upward trend late in July and, reportedly, have had a negative effect on consumption patterns. Food service orders are about steady, but lower priced butter substitutes are again attracting more attention. Churning activity is limited by volumes of surplus milk and cream in the Northeast and Southeast. Butter stocks are often tight and some producers are having difficulty meeting contractual commitments.

WHOLESALE PRICES: MIN 25 BOXES
DOLLARS PER POUND, DELIVERED EAST COAST CITIES

1/4 LB. PRINTS	: 1.2525-1.3975
1 LB. PRINTS	: 1.1850-1.3775
CHIPS/PATTIES	: 1.2475-1.4175
REDDIES	: 1.3225-1.4375
CONTINENTALS	: 1.4025-1.5775

CENTRAL STATES PRINT BUTTER - GRADE AA

Central print butter prices are higher following the 5 cent advance recorded at the Chicago Mercantile Exchange October 20. The market undertone remains firm. Supplies of butter remain in close balance to short of needs. Some handlers continue to reach to Western areas of the country for additional stocks, but the availability of those stocks are less accessible and more expensive. Local churning schedules are increasing slowly with manufacturers stating that the increasing output will probably not keep pace with year end needs. Orders are seasonally good as food service, bakers, and retail stores prepare for the upcoming holidays.

FOB CENTRAL STATES PLANTS: MIN 20,000 POUNDS, \$ PER POUND

1/4 LB. PRINTS	: 1.1500-1.5475
1 LB. PRINTS	: 1.1150-1.2775
CHIPS/PATTIES	: 1.1400-1.3500
REDDIES	: 1.2250-1.4600
CONTINENTALS	: 1.3800-1.5700

CALIFORNIA PRINT BUTTER - GRADE AA

Print butter markets are firm and prices are basically 5 cents higher. Supplies of Western butter are in closer balance with demand. Churning schedules are also lighter than anticipated for this time of the year. Buying interest remains strong, although some buyers are hesitant about placing large orders at this time. In some Western retail markets, feature activity on print butter at prices well below current levels is attracting consumer interest. Buyers from elsewhere in the country continue to look to Western sources for additional bulk stocks. If spot loads are located, many are being priced at flat market with premiums above the market more common.

WHOLESALE SELLING PRICES: DELIVERED CALIFORNIA CITIES
150 - 1000 POUNDS, DOLLARS PER POUND

1/4 LB. PRINTS	: 1.3550-1.4300
1 LB. PRINTS	: 1.2525-1.3200
PATTIES	: 1.3100-1.4675
REDDIES	: 1.4225-1.5325

FOB CALIFORNIA PLANTS - GRADE AA
100 CASES AND UP, DOLLARS PER POUND

1/4 LB. PRINTS	: 1.0375-1.1125
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WEEKLY COLD STORAGE HOLDINGS - SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

	BUTTER	CHEESE
10/23/95	10,211	114,902
10/01/95	14,071	117,404
CHANGE	-3,860	-2,502
% CHANGE	-27	-2

NATIONAL DAIRY MARKET AT A GLANCE

At the Chicago Mercantile Exchange, all grades of bulk butter advanced 5 cents: Grade AA butter is \$1.000; Grades A and B are \$1.0300. At the National Cheese Exchange in Green Bay, Barrels are unchanged at \$1.3825, 40# Blocks are unchanged at \$1.4225, and 64# Blocks are unchanged at \$1.4125. According to NASS, U.S. cold storage holdings of butter on September 30, 1995 total 31.7 million pounds, down 37.0% from August 31, 1995 and 80.7% lower than September 1994. Natural American cheese holdings total 316.9 million pounds, down 6.6% from last month but 1.8% more than a year ago. Government owned butter holdings total 9.7 million pounds, 46.3% less than August 1995 and 91.5% less than a year ago. Cheese supplies owned by the government total 249,000 pounds, 23.5% more than a month ago but 76.8% less than a year ago. Nondat dry milk holdings at the end of August total 122 million pounds 24.7% less than a month ago and 19.7% less than a year ago. The September Consumer Price Index (CPI) for all food is 148.9, up 2.7% from last September. The dairy product index at 132.5, is up 0.8% from a year ago. Year-to-year changes in selected dairy products are: fresh whole milk +0.6%, cheese +0.7%, and other dairy products (includes butter) +3.1%. According to the ERS, Livestock, Dairy, and Poultry Situation and Outlook report, Mexico contracted for almost 12,000 tons of nondat dry milk just as the July-September Interim Dairy Export Incentive Program (DEIP) expired. Mexico, one of the largest DEIP customers in recent years, had not purchased nondat dry milk since last winter. Sales of nondat dry milk in Mexico's domestic commercial market fell sharply because of higher international prices, peso devaluation, and economic weakness. Although Mexican stocks apparently have been reduced, imports are not likely to return to the levels of recent years. New DEIP allocations were recently announced, with sales to Asia expected by late 1995. However, sales to Algeria or additional sales to Mexico are uncertain. Unsubsidized butter

Exports are projected to be small during the rest of 1995. Commercial exports were substantial earlier in the year, but recent domestic price increases have made U.S. butter uncompetitive on international markets. World production of milk and dairy products is projected to be large in 1995. However, strong consumption in major exporting countries is limiting supplies on the international market. Stocks of butter and nondat dry milk are projected to decline even further in 1995 to half the volume of the early 1990's. This week, milk production patterns range from lower to slightly higher. Output is up slightly in some sections of the Southeast and Northeast, steady in the Southwest, and steady in most other regions. The Southeast is still short of milk and handlers in surrounding states continue to ship milk into Florida and other states. Contacts feel that the need for milk will soon ease as milk production increases. However, they expect shipment to continue well into December. The dry dairy product markets are generally firm. Nondat dry milk, dry buttermilk, whey powder, and whey protein concentrate are all in tight supply and prices are increasing. Some producers are making orders, but delaying shipment for two to three weeks; others are not taking any new orders. Many are having difficulty meeting their commitments. During the week of October 23 - 27, CCC reported no activity under the price support program. **SPECIAL THIS ISSUE**

CHEDDAR CHEESE AND NONFAT DRY MILK FUTURES (PAGE 7)
 INTERNATIONAL DAIRY MARKET NEWS (PAGE 8)
 COMMERCIAL AND GOVERNMENT COLD STORAGE HOLDINGS (PAGES 9-10)
 LIVESTOCK, DAIRY AND POULTRY SITUATION AND OUTPUT (PAGE 11)
 CURRENCY GRAPHS (PAGE 12)
 CHEESE MARKETS

WISCONSIN ASSEMBLY POINTS

Dollars per pound, standard moisture basis (37.8-39.0%), cartot/truckload, F.O.B. plants or storage centers, prices include CCC purchase price whenever cheese is moving to CCC from the Midwest area. CHEDDAR STYLES : OCTOBER 23 - 27, 1995

BARRELS*	\$1.3825 - 1.4050
40# BLOCKS	\$1.4225 - 1.4725

() Change from previous week. * If steel barrel returned.

CHEESE HIGHLIGHTS: The cheese market is mostly steady. Overall, cheese demand is steady to slower as buyers are convinced prices are at least near peak values. Orders are up, as buyers cycle smaller volume orders more frequently. Mozzarella and top grades of Swiss continue tight to short of needs. Cheddar offerings are adequate. Cheese production is unchanged to lower as milk receipts decline toward annual low levels.

NATIONAL CHEESE EXCHANGE, INC.

Change Transactions on FRIDAY, OCTOBER 27, 1995
 (CARLOT UNIT = 38,000-42,000 LBS.)
 CHEDDAR STYLES : LAST SIGNIFICANT TRANSACTION

BARRELS	N.C.	SALE	10/27/95	\$1.3825
40# BLOCKS	N.C.	SALE	10/27/95	\$1.4225
64# BLOCKS	N.C.	BID	10/20/95	\$1.4125

SALES ON BIDS: 6 CARS BARRELS: 4 @ \$1.3800, 2 @ \$1.3825
 SALES ON OFFERS: 7 CARS BARRELS: 2 @ \$1.3775, 2 @ \$1.3800, 3 @ \$1.3825 (LST)
 BIDS UNFILLED: 7 CARS 40# BLOCKS @ \$1.4225

OFFERS UNCOVERED: NONE

CHICAGO WHOLESALE

Dollars per pound, truckload, bulk in fiber boxes, delivered metropolitan area, prices include CCC purchase price whenever bulk butter is moving to CCC from the Midwest area. GRADE : OCTOBER 26 : OCTOBER 27

AA	\$1.0500 - 1.0600	\$1.0500 - 1.0600
A	\$0.9800 - .9900	\$0.9800 - .9900

() Change from previous price.

BUTTER HIGHLIGHTS: The market remains unsettled/firm. Supplies of butter in most areas of the country range from in close balance to generally short of full needs. Milk volumes for butter/powder production are higher this year than they have been in other years at this time. Handlers are filling orders from the lower production and inventories acquired earlier this year. Current buying interest is seasonally good as users prepare for upcoming holiday needs. Some retail stores are already featuring butter at prices well under \$1.00 per pound. No bulk or print butter has been offered to CCC since March.

CHICAGO MERCANTILE EXCHANGE

Butter Transactions on FRIDAY, OCTOBER 27, 1995
 (CARLOT UNIT = 40,000 LBS.)
 GRADE : PRICE CHANGE : LAST SIGNIFICANT TRANSACTION - LST

AA	- .0500	\$1.1000	10/27/95
A	+ .0500	\$1.0500	10/27/95
B	- .0500	\$1.0300	10/27/95

BIDS UNFILLED: CAR GRADE AA @ \$1.1000 (LST)
 : CAR GRADE A @ \$1.0300 (LST)
 : CAR GRADE B @ \$1.0300 (LST)
 OFFERS UNCOVERED: NONE

CORRECTION: TRADING ON 10/20/95 SHOULD HAVE READ
 BIDS UNFILLED: 1 CAR GRADE A @ \$0.9800 (LST)
 1 CAR GRADE B @ \$0.9800 (LST)

Dairy Outlook

Economic Research Service
U.S. Department of Agriculture

LDP-D-7
June 23, 1995

Dairy markets are coping with a volatile mix this spring and summer: faltering gains and expected recovery in milk production, very strong export demand for milkfat, a reduced Dairy Export Incentive Program (DEIP), large nonfat dry milk stocks, and modest gains in commercial use of skim solids. Cheese prices and farm milk prices are expected to be about flat until midsummer and then post moderate seasonal gains. For all of 1995, farm milk prices are projected to average 3 to 5 percent below a year earlier, the result of a 3-percent rise in production and only a 2-percent increase in skim solids sales.

In 1996, milk prices are expected to be about unchanged. Both milk output and commercial use of skim solids are projected to grow about 2 percent. While the surplus of skim solids will be substantial, almost all of the available milkfat beyond domestic sales is projected to be exported without subsidy.

Brisk Output Growth To Resume

Milk production is expected to show large increases during the second half of 1995--if the currently sluggish milk per cow in western areas can recover. Cow numbers are expected to be barely below a year earlier, while milk per cow, aided by further adoption of bovine somatotropin (bST), posts large gains. The 1995 total milk production is projected to rise about 3 percent.

Milk per cow in the 22 monthly reporting States during April-May rose only 1.5 percent, less than half the January-March gain. While most States continued to show relatively large increases, all the western States were about steady or below a year earlier. In 1994, western cow numbers rose enough to pressure alfalfa supplies, boosting hay prices despite a relatively large crop. When weather curtailed hay production early in the 1995 season, milk producers probably had exhausted supplies of high quality forage. In addition, weather reduced

milk per cow in some areas. The weather and feed effects may have been compounded by farmers temporarily ceasing bST injections of affected cows.

Milk cow numbers this spring were close to a year earlier. The milk prices of 1992-94 have slowed farm exit and encouraged farms to expand, even in areas that had rapidly lost dairy farms.

Milk-feed price ratios during the rest of 1995 and 1996 are projected to be mediocre or unfavorable. Along with an expected slower expansion in bST use, restrained increases in concentrate feeding will temper growth in milk per cow. However, ample water supplies promise to ease western forage problems later this year. Output per cow is projected to increase about 3 percent during the second half of 1995, followed by a 2-percent growth in 1996.

Lower milk prices are expected to start milk cow numbers edging lower. However, anticipated changes in milk and feed prices are not projected to be enough to substantially alter recent structural patterns. Milk cow numbers in 1996 are projected to average less than 1 percent below 1995.

Milk production in 1996 is projected to rise about 2 percent. Ample high quality western alfalfa probably is crucial to this increase. If lack of hay limits western expansion, much higher milk prices probably would be needed to bring forth a significant increase in total milk output.

Wholesale Prices Mixed

Nonfat dry milk prices were basically steady this spring, running near the support purchase price in the West and 3 to 4 cents above support in the Midwest. However, powder has been backing up recently as DEIP shipments started to tail off and production was heavy seasonally. Prices are expected to be fairly weak through most of summer. Exports under DEIP may not absorb all of the

U.S. dairy situation at a glance

	Unit	1992	1993	1994	Feb-94	Mar-94	Apr-94	May-94
Milk production:								
Production (22 States)	Mil. lb.	129,613	129,577	132,240	9,990	11,315	11,282	11,799
Milk cow (22 States)	Thou.	8,222	8,153	8,096	8,082	8,074	8,080	8,097
Milk per cow (22 States)	Lb.	15,764	15,893	16,333	1,236	1,401	1,396	1,457
Production (U.S. est.)	Mil. lb.	150,886	150,582	153,626	11,662	13,209	13,118	13,719
Milk prices:								
All milk	Dol./cwt	13.09	12.80	12.97	13.40	13.50	13.40	12.80
Milk eligible for fluid use	Dol./cwt	13.16	12.86	13.03	13.50	13.50	13.50	12.90
Manufacturing grade milk	Dol./cwt	11.87	11.76	11.83	12.20	12.40	12.50	11.40
Minnesota-Wisconsin (3.5% fat)	Dol./cwt	11.88	11.80	12.00	12.41	12.77	12.99	11.51
Slaughter Cow, Wisc:	Dol./cwt	49.69	50.14	45.05	48.50	48.75	49.00	48.50
Wholesale prices:								
Grade A butter	Ct/lb	82.54	74.36	67.37	64.0	65.5	65.5	64.5
American cheese, WI assembly pt.								
40-pound blocks	Ct/lb	131.91	131.52	131.45	134.2	140.0	143.3	125.7
Barrels	Ct/lb	125.12	126.12	NA	127.6	135.3	140.2	126.0
Nonfat dry milk, Central States	Ct/lb	107.13	112.03	107.93	109.9	110.5	110.8	108.5
Retail prices (BLS):								
Consumer Price Index	1982-84=100	140.3	144.5	148.2	146.7	147.2	147.4	147.5
All food	1982-84=100	137.9	140.9	144.3	142.9	143.2	143.4	143.5
Dairy products	1982-84=100	128.5	129.4	131.7	131.8	131.8	131.8	132.0
Fluid milk and cream	1982-84=100	127.1	128.7	132.2	132.6	132.4	132.6	132.7
Manufactured products	1982-84=100	130.5	130.6	131.9	131.7	131.7	131.6	131.9
Dairy product output:								
Butter	Mil. lb	1,365.2	1,315.2	1,295.9	118.4	118.0	119.4	118.2
American cheese	Mil. lb	2,936.6	2,957.3	2,977.0	219.7	249.7	255.2	266.1
Other-than-American cheese	Mil. lb	3,551.7	3,570.9	3,753.1	286.1	342.1	299.1	324.3
Frozen products 1/	Mil. gal.	1,195.8	1,198.3	1,244.8	90.0	114.0	113.1	117.3
All products (milkfat basis 2/)	Mil. lb	94,036	93,509	94,581	7,330	8,250	8,155	8,620
Nonfat dry milk	Mil. lb	872.1	954.5	1,215.6	84.5	102.4	126.1	134.2
Beginning stocks:								
Commercial butter	Mil. lb	39.0	24.5	14.6	25.6	19.4	18.5	29.9
Commercial American cheese	Mil. lb	295.6	333.1	356.6	346.0	327.1	318.0	325.2
Other cheese	Mil. lb	97.5	120.9	107.0	147.9	145.3	154.2	161.8
Manufacturers' nonfat dry milk	Mil. lb	60.9	77.4	79.9	79.1	76.0	64.2	87.0
All commercial (milkfat basis)	Mil. lb	4,461	4,688	4,550	5,019	4,707	4,722	5,125
All commercial (skim solids basis)	Mil. lb	4,755	5,566	5,650	5,968	5,735	5,651	6,091
All Government (milkfat basis)	Mil. lb	11,379	9,526	5,020	5,148	5,118	5,305	5,401
All Government (skim solids basis)	Mil. lb	2,072	265	161	132	101	81	75
Commercial disappearance:								
Butter	Mil. lb	944	1,040	1,097	79.6	107.7	92.6	71.3
American cheese	Mil. lb	2,903	2,945	3,034	238.5	260.7	249.1	241.4
Other-than-American cheese	Mil. lb	3,795	3,884	4,048	308.1	361.3	320.7	346.1
Nonfat dry milk	Mil. lb	721	649	891	65.9	100.0	65.7	78.6
All products (milkfat basis 2/)	Mil. lb	141,350	145,037	150,217	11,019	13,038	12,459	12,429
USDA net removals:								
Butter	Mil. lb	439.5	288.8	204.4	45.2	11.4	15.5	46.7
Cheese	Mil. lb	14.4	8.3	6.9	0.2	0.1	0.1	0.1
Nonfat dry milk	Mil. lb	136.7	304.3	302.3	21.8	14.3	37.7	18.3
All products (milkfat basis 2/)	Mil. lb	9,935	6,656	4,810	999	262	361	1,039
All products (skim solids basis 2/)	Mil. lb	1,989	3,876	3,839	268	178	454	236
Imports (milkfat basis 2/)	Mil. lb	2,522	2,806	2,871	180	253	248	194
International market prices:								
Butter	S/metric ton	1,498	1,343	1,404	1,334	1,313	1,344	1,313
Nonfat dry milk	S/metric ton	1,685	1,545	1,660	1,489	1,499	1,507	1,553

1/ Hard ice cream, ice milk, and sherbert.

2/ Milk equivalent.

NA = Not Available.

Milk used and marketed by farmers, 1988-94

Item	1988	1989	1990	1991	1992	1993	1994 5/
Billion pounds							
Used on farms where produced							
Fed to calves 1/	1.5	1.5	1.5	1.5	1.4	1.4	1.4
As fluid milk or cream 2/	0.6	0.6	0.5	0.5	0.5	0.4	0.4
Total on-farm use 3/	2.2	2.1	2.0	2.0	1.9	1.8	1.8
Milk marketed by farmers:							
Sold to plant and dealers:							
Fluid grade	127.5	128.1	133.2	134.6	137.6	140.4	143.2
Manufacturing grade	14.2	12.7	11.6	10.1	10.4	7.4	7.5
Sold directly to consumers 4/	1.1	1.0	1.0	1.0	1.0	1.0	1.1
Total milk marketed 3/	142.8	141.8	145.7	145.7	149.0	148.8	151.9
Total milk production 1/ 3/	145.0	143.9	147.7	147.7	150.9	150.6	153.6

1/ Excludes milk sucked by calves. 2/ Includes farm-churned butter. 3/ May not add due to rounding. 4/ By producers who sell only milk from herds. Also includes milk produced by institutional herds. 5/ Preliminary.

Commercial disappearance: Total milk, milkfat basis, 1990-96 1/

Item	1990	1991	1992	1993	1994 2/	1995 F	1996 F
Billion pounds							
Production	147.7	147.7	150.9	150.6	153.6	158.2	161.3
Farm use	2.0	2.0	1.9	1.8	1.8	1.7	1.6
Marketings	145.7	145.7	149.0	148.7	151.9	156.5	159.7
Beginning commercial stocks	4.1	5.1	4.5	4.7	4.6	4.3	4.8
Imports	2.7	2.6	2.5	2.8	2.9	3.2	3.2
Total supply	152.5	153.5	156.0	156.2	159.3	163.9	167.7
Ending commercial stocks	5.1	4.5	4.7	4.6	4.3	4.8	5.0
Net removals	9.0	10.4	9.9	6.7	4.8	2.1	0.5
Commercial disappearance	138.4	138.6	141.4	145.0	150.2	157.0	162.2
Percent change 3/	2.5	0.2	1.7	2.6	3.6	4.5	3.0
\$/cwt							
All milk price	\$13.74	\$12.27	\$13.15	\$12.84	\$13.01	\$12.3- \$12.7	\$12.0- \$13.0

1/ Totals may not add because of rounding. 2/ Preliminary. 3/ From a year earlier, using unrounded data. On a daily average basis where applicable. F= Forecast.

U.S. Milk production and related data

	Unit	1993	1994	1994				1995
				1st	2nd	3rd	4th	1st
Milk cows	Thou.	9,589	9,525	9,506	9,530	9,539	9,524	9,516
Milk per cow	Lb.	15,704	16,129	3,951	4,188	4,007	3,983	4,095
Milk production	Mil. lb.	150,582	153,626	37,560	39,916	38,217	37,933	38,971
Concentrate ration	Dol./cwt.	7.78	8.03	8.21	8.16	7.98	7.76	7.61
Milk-feed price ratio	Dol./cwt.	1.64	1.62	1.65	1.58	1.57	1.67	1.66

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- 1506 Summary of Report AIB-684 - Livestock and Poultry Consumption and Spreads
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nonfat dry milk output fell below a year earlier after starting the year strong. Cheese production is expected to continue growing during the rest of 1995. Butter and nonfat dry milk output may be erratic, but tending to be about the same to below a year earlier.

Milkfat Stocks Tight

May 1 stocks of cheese were below a year earlier. Commercial holdings of American varieties were near the levels of recent years, but stocks of other varieties were below last year's large inventories. Warehouse stocks of butter in commercial hands were close to the 2 previous years. However, substantial quantities of butter and cream probably also were held outside of cold storage warehouses.

Manufacturers' stocks of nonfat dry milk on May 1 were a record for the date. Some of the increase probably was product awaiting DEIP shipment. However, powder stocks grew mostly because DEIP exports were not sufficient to remove the current surplus of skim solids.

Stocks of skim solids may be relatively large through much of summer. Fat stocks likely will be tight. Without the reserve of CCC butter stocks, periods of tightness may quickly deplete fat stocks. If fat starts to back up, any butter not needed to meet commitments likely will be exported rather than added to stocks.

Dairy Sales Rise

Commercial use of skim solids is projected to rise almost 2 percent in 1995. Growth in cheese sales, a slight rise in fluid sales, and continued heavy use of nonfat dry milk in processed foods are expected to contribute. Real retail dairy prices will again be down, and the economy continues to grow, although somewhat slower than in 1994.

Spurred by exports, commercial use of milkfat is projected to rise 4 to 5 percent in 1995. Domestic milkfat sales are expected to contribute substantially, as the delayed response to longer-run price declines apparently continues.

Commercial use in 1996 is projected to expand further, by 1 to 2 percent for skim solids and 3 percent for milkfat. The favorable demand conditions of recent years are anticipated to continue. However, any faltering of the economy could have a significant effect. In addition, large declines in the typically unsteady international butter prices could drop commercial use of milkfat.

In general, January-April commercial use of dairy products was larger than a year ago. Cheese sales rose modestly, while fluid sales were up fractionally. Commercial disappearance of nonfat dry milk was down, probably due mostly to less used to produce other dairy products. Sales of perishable manufactured products generally were weaker, continuing the pattern of recent years.

Commercial disappearance of butter soared during January-April. Unsubsidized exports, domestic sales, and the building of pipeline stocks competed for the available butter supplies, but the relative contributions to the overall increase are unclear. January-March export data imply no significant commercial exports but could mislead in a number of ways. Some butter almost assuredly was at least moved into export channels. Similarly, significant amounts probably were moved into storage other than cold storage warehouses. However, it appears that domestic butter sales increased, continuing the response to the lower prices of recent years.

Small Milkfat Surpluses Ahead

The 1995 surplus of skim solids is projected to be equivalent to 5 to 7 billion pounds of milk, up from less than 4 billion in 1994. Increases in commercial use are not projected to keep pace with expansion in milk production. The skim solids surplus in 1996 may not be much different.

If international butter prices stay strong as expected, commercial exports will reduce the 1995 surplus of milkfat to less than half of 1994's almost 5 billion pounds, milk equivalent, and reduce the 1996 surplus even further. Even without the export markets, the milkfat surplus probably would be smaller than the surplus of skim solids.

Almost all of this year's surplus removals have been through DEIP contracts. Nonfat dry milk shipments under DEIP have been very large because of an overlap of contracts accepted in late 1994 for 1995 shipment and early 1995 contracts for quick shipment. Net removals of butter would have been quite low if it had not been for a similar DEIP overlap.

Implementation of new DEIP allocations for the second half may lead to a minor summer flurry of new activity for nonfat dry milk. However, the new allocations will be considerably smaller, in accord with GATT limits, and some support purchases are likely.

International Prices Strong

International dairy markets have remained tight in the face of seasonal production increases in the Northern Hemisphere. Prices of butter and nonfat dry milk have been steady to edging higher in recent months, staying far above a year earlier. Cheese prices also have been up from last year, although rises have been tempered somewhat by heavy exports before the GATT export disciplines take effect on July 1.

Strong import demand, brisk domestic demand in many exporting countries, weak milk production in Eastern Europe, and very low world stocks have been major contributors to higher international prices. Unexpectedly strong butter demand from Russia and stronger demand from Arab countries absorbed available butter supplies. Nonfat dry milk imports have yet to respond to higher prices, except maybe in Mexico. Demand appears to be particularly good in South America and East Asia.

Strong domestic demand in the European Union (EU) and the United States has limited export supplies. Supplies also are lower in the exporting East European countries, while import demand has risen by the region's importers. Although historically large, milk production in Oceania during the season just ended fell short of expectations and supplies were fully committed by early 1995. Meanwhile, EU and U.S. government stocks were tiny.

Changes in exchange rates have significantly altered the effects of higher dairy prices on different countries. For example, early June butter prices in U.S. dollars were about 70 percent above a year earlier. However, the price increase was only about 40 percent in Japanese yen or West European currencies and about 50 percent in New Zealand dollars. Meanwhile, the price in Mexican pesos rose more than 200 percent.

International market prices are expected to continue strong. The major factors in the recent firmness are not likely to change abruptly and Northern Hemisphere supplies will decline seasonally. Even so, international prices are projected to edge lower by late 1995, when supplies from Oceania will again be available, particularly if world imports begin to respond to the higher prices.

U.S. Imports and Exports Higher

Imports rose modestly during January-March, mostly because of expanded access under the new GATT agreement. Most of the expanded access was for milkfat and U.S. milkfat prices have not been attractive thus far in 1995. However, exporters may have felt that it was in their longrun interest to establish themselves quickly in the U.S. market.

January-March exports were well above a year earlier. Shipments under DEIP were much larger for butter, nonfat dry milk, and dry whole milk because of the strong international markets and a very unusual overlap of exports under 1994 and 1995 contracts.

Commercial exports of cheese were higher last winter, mostly going to nearby countries, Japan, and Korea. The winter rise was not significant to the domestic markets but effects could become more important if the United States remains an inexpensive source of milkfat and a not-too-expensive source of skim solids. Agreements for commercial butter exports were reached last winter but the size and timing of these remain uncertain.

Commercial exports of butter are projected to continue during the rest of 1995 and in 1996. The export volumes may increase as current commitments to domestic users are concluded and U.S. butter starts to penetrate higher price import markets. Commercial exports of cheese and other products probably will not be large but might begin to have an effect on domestic market prices.

New DEIP contracts probably will be reached quickly after allocations covering the second half are implemented. However, DEIP exports of dry milks probably will be much smaller than during the first half of 1995 and may not reach year-earlier levels.

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HOARD'S DAIRYMAN
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WISCONSIN STATE FARMER

Dollars At Risk Mean Futures Markets For Dairy Products Are Justified

by Ray Mceller

Seymour, WI—With \$2.8 billion at risk each year due to the swings in milk prices, along with another \$635 million on Cheddar cheese and \$71 million on nonfat dry milk, futures markets for those commodities are justified, dairy and grain marketing consultant and advisor Roger Blimling of Cottage Grove, WI, says. He outlined the theory of futures trading in dairy and grain markets for area farmers attending the 1995 annual meeting of the Outagamie County Forage Council.

Although futures markets for dairy products didn't begin until 1990, Blimling noted more dollars are at risk on them than for the individual feed grains which have had long-standing futures markets. He cited the annual dollars at risk from price swings as \$2.4 billion with corn, \$1.8 billion with soybeans, and \$647 million with wheat.

The annual price swings on cash milk prices within the years 1989 to 1995 ranged from 16 to 38 percent, Blimling pointed out. With those cash prices being above the federal price support continuously since 1989, volatility has characterized the market and fed milk powder buyers, candy manufacturers, and other end product users to ask for a futures market to allow them to reduce their price risks, Blimling explained.

But as the new product suppliers and as the second set of parties also at risk on milk price swings, Blimling believes dairy farmers should also look at futures markets as a way to reduce their price risks. He recalled that the high federal support prices of the late 1970s and early 1980s presented dairy farmers with the simple task of "making milk" because there was no price risk involved with increasing production.

Today, however, with the outbreak of the price support to \$10.65 per hundredweight of milk from the one-time high of \$13.10, dairy farmers are incurring both price and production risks, Blimling continued. That's why he believes the fluid milk futures contracts, which began trading less than three months ago, offer "a new marketing arena that is good for the dairy farmer. The fluid milk contracts are

being more well received by dairy farmers than those for Cheddar cheese and nonfat dry milk."

Fluid milk futures contracts, for 50,000 pounds of milk, began trading on the Coffee, Sugar, and Cocoa Exchange (OSCE) in New York in December and on the Chicago Mercantile Exchange (CME) in January. The first contracts expire in February.

Advantages to futures selling and buying are knowing the prices for one's products well before the date of product transfer, the chance to budget accurately, and easier management of cash flow, Blimling noted. "Cargill, the world's largest grain company, trades in the futures market every day."

Without a futures market, "you have purely a cash market. That's what the dairy market is today," Blimling emphasized. "That's okay if both parties are happy with the prices on the same day and if both want to trade on that day."

What a futures market provides is a chance for both buyer and seller to reduce the risk of cash market price

changes on goods they want to sell or buy, Blimling explained. "If there were only a seller and buyer, neither would have a chance to sell at the highest price or buy at the lowest price that the market ever offers."

What both parties want and what futures markets offer is the chance to reduce their risks amid cash market price changes, a role that is taken by market speculators who hope to make a profit in futures trading, Blimling continued. "But your business is making milk, hay, and corn, not to be a speculator."

"Futures pricing is not a buyer or seller...it is merely a price risk mechanism."

Roger Blimling
BLIMLING & ASSOCIATES

"The market speculators don't care about price. A \$2 or \$4 corn price does not matter to them," Blimling said. "They just want to trade. They try to find the equilibrium between seller and buyer and get a reward for doing so."

"Futures pricing is not a buyer or seller," Blimling emphasized. "It is merely a price risk mechanism." He likens it to banks which borrow money at 5 percent from one source and then lend it to borrowers at 8 percent.

Blimling noted futures pricing is common for the buying and selling of gasoline, heating oil, fertilizer, natural gas, and treasury bonds as well as grains. "It helps you to do something other than direct selling and delivering," he pointed out. "The commodity owner reduces his price risk by transferring it to someone else. The producer carries all the front-end risks while the end-user has all the backside risks."

What makes the futures market work is the offsetting of price movements in the cash and futures markets, Blimling explained. "Any cash market gains or losses will be the same as the futures market gains and losses."

Because there is no transaction

without a seller and buyer, the futures market traders can hedge their positions and either pay into a margin account or receive a credit to it as prices change, Blimling noted. Because "the hedging theory is sound," he began to look at it as a possibility for the dairy market.

After working for other futures market traders, Blimling formed his own company in January of 1992. In working with Wisconsin dairy farmers who were using the futures markets for their grain, he learned they were also interested in a dairy futures market.

In watching the cheese and nonfat dry milk futures market on the OSCE from June to December of 1993, Blimling concluded "Cheddar cheese hedging worked" and believed the idea could be taken to the pricing of fluid milk. "Just as all corn prices are driven by the December futures for Number 2 yellow corn, milk prices are driven by Cheddar cheese prices," he says. He cites a study by UW-Madison dairy economists which showed a 0.92 correlation between Cheddar cheese and milk prices, a correlation that applies for over 80 percent of the country's milk production (California is the exception).

Blimling began to work with Alto Dairy Cooperative on a dairy futures pricing project. In September of 1994, the co-op began hedging cheese futures contracts on the OSCE and offering futures pricing contracts on fluid milk to its members. "You can price fluid milk from Cheddar cheese," Blimling says. "Cheddar cheese prices follow the futures price."

Although the new futures contracts for fluid milk allow dairy farmers to make a direct trade, Blimling realizes a great majority of Wisconsin dairy farmers are not familiar with the intricacies of such trading or comfortable with it. Teaching farmers about hedging is a service available from many sources, he notes. Blimling charges a per cow fee for dairy futures consultation and a per acre fee for advice on grain trading.

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MAGAZINE

THE WESTERN DAIRYMAN

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Bacon's

Introduction To Trading Milk Futures Meeting

Over 120 people recently joined representatives from the Coffee, Sugar and Cocoa Exchange (CSCE) to learn about trading milk futures and options at a seminar in Visalia, California.

Milk futures are a new tool designed to help dairymen deal with risk in the business, said Jim Bowe, senior vice president for marketing and planning for the CSCE. The contracts are needed because there is now price/risk volatility in the dairy industry that has never been seen before. "You are affected by supply and demand and have price volatility, so you need risk management or futures," Bowe said.

L.J. Butler of U.C. Davis explained the basics on how to use milk futures contracts to manage price. "Futures give you an opportunity to look at future prices, see if it's where you want to go, and lock in that price," he said.

Bowe pointed out that it is almost always better to use the cash market to sell the product and use hedging to establish a price for the product. Once a price is established for the product, price risk can be managed without delivery of the product.

Butler said milk futures should be used as a financial tool with producing milk. "It's not a tool for making money; it's a tool for guaranteeing the price you want [to receive for your milk]."

Bowe said the first step to getting started in trading milk contracts is to establish a hedging account with a broker.

Milk contracts were first traded on the CSCE in December 1995. The CSCE is offering education and training with seminars, teleconferences, one-on-one meetings, and printed materials. For more information, interested producers may contact the CSCE at 800-HEDGE-II.

THE FARMER'S EXCHANGE

New Paris, IN

Circ - 15,000

Weekly Pri.

MARCH 1, 1996
Bacon's

Exchanges Offer Dairy Futures

Dairy producers now have a new marketing tool at their disposal that's been available to crop and livestock producers for quite some time—futures contracts, at both the Coffee, Sugar & Cocoa Exchange (CSCE) since December and the Chicago Mercantile Exchange (CME) since January.

While there are some significant differences between the contracts offered by the two exchanges, the overriding concept is the same—offer producers and fluid milk purchasers a chance to lock in prices, says Michigan Farm Bureau dairy specialist Kevin Kirk. He says the need for such a marketing tool will become more critical as the dairy market grows more unstable.

"Milk prices have fluctuated 15 to 16 percent over the past year, while cheese prices varied 17 percent and butter prices dropped 34 percent in one week," Kirk cautioned. "At the same time, feed costs are higher and government policy remains uncertain at best."

Errol Baxter, director of commodity marketing and education for the CME, is predicting that there will be no government price sup-

ports in the future, meaning that prices will vary widely, similar to cattle and hog prices. He suggests that producers consider the use of future and option contracts as one way of leveling out the prices they receive.

"If you know the market is going down ... you're better off selling futures contracts," Baxter advised. "It is, by far, the best way of protecting your milk price—no question about it. However, if they (prices) go up, options provide a price floor. It's nice to pay a premium and have the potential for the higher prices."

Michigan State University agricultural economist Jim Hilker predicts that if the fluid milk contracts are to be successful, however, that milk cooperatives will have to play a role in providing their members a chance to utilize the futures contracts through forward pricing, similar to what elevators offer cash crop producers, as a risk management tool.

"If these contracts are going to work, in my opinion, the co-ops are going to have to use them as a marketing tool for their individual members," Hilker sug-

gested. "There's a good deal of risk in the markets, and the co-ops would be the logical place to use the contracts to help reduce that risk. They would theoretically have the expertise and the resources to do it right."

Michigan Milk Producers Assn. general manager Wain Wosje says that, although the cooperative is studying the contracts, they have no immediate plans to get involved in using them.

"This is more of an individual farmer assessment as opposed to the co-op," Wosje said. "It's pretty easy for a producer to buy or sell a 50,000 pound unit—the forward pricing opportunities are there with or without a co-op. I don't know that we (MMPA) should be speculating or gambling on behalf of all farm members."

Hilker and Wosje do agree, however, that individual producer utilization, early on, will be minimal. "Some big dairy farmers may use the contracts," Hilker said. "But they need to have someone in place who's an expert in getting the right contract and understands the contract specifications and details."

"It should really be used as a risk tool," Hilker continued. "Anytime the price is in a range that offers you a profit margin, that's a reasonable time to consider

using the contracts. That's especially critical with these high feed prices, because you don't want to risk a drop in milk prices with these current grain prices."

The biggest distinction between the CSCE and the CME contracts is the delivery point. The CSCE contract requires delivery from an approved plant or facility in the Madison, Wis., district of the Chicago Regional Federal Milk Market Order. That buyer responsible for picking up the shipment and assuming all transportation costs from the point.

The CME contract, on the other hand, requires delivery to a CME-approved facility within the boundaries of Wisconsin and Minnesota or located in the portion of surrounding states included in the Chicago Regional or Upper Midwest Federal Milk Marketing Orders.

The seller assumes all transportation costs to the buyer's facility except that the buyer will be assessed a standard freight rate per mile for each additional mile the milk is hauled over and above the distance between the seller's facility and either Eau Claire or Fond du Lac, Wis. The excess hauling costs will be paid to the seller.

The future in marketing

Dairy farmers can lock in a milk price. But know your cost of production first.

BY SUSAN HARLOW

When you don't know what the price will be tomorrow for the milk you're making today, business decisions can be precarious. But since December, farmers and others in the dairy industry have had a new tool to help take the edge off wild price fluctuations: trading milk futures.

Proponents say it's like taking out insurance on the price of milk. You ease the risk of losing a lot of money if the price drops. But you don't stand to gain if the price goes up.

"Hedging can have a very positive influence on the dairy industry because there's volatility in the market; the fact that we don't know what the price is going to be two or three years down the line creates some uncertainty," says Roger Clapp, deputy commissioner of agricultural development for the Vermont Department of Agriculture, Food and Markets.

For the first time, the Coffee, Sugar & Cocoa Exchange (CSCE) began trading in fluid milk futures in December 1995, followed by the Chicago Mercantile Exchange (CME) which began trading in January. (Futures in cheese and non-fat dry milk have been traded since June 1993.)

With the potential loss of federal milk supports and even greater price destabilization looming, locking in future milk prices

can help reduce risk and make farmers a better credit risk for lenders, says Ken Becker, deputy commissioner for the Vermont department of agriculture.

What is a milk futures contract? It's an agreement to deliver 50,000 lbs. (or a tanker truckload) of milk at a future date but at a price agreed upon in the present. Anyone can buy or sell a contract, or ask a broker to do it for them. The broker will have a trader on the floor of the CSCE and CME every day, offering contracts such as yours for sale or offering to buy them.

The idea is to sell a contract for your milk now, months in advance of its actual production, when the market price is at a level that you think will be profitable. That's why knowing the exact cost of producing your milk is essential. It's called "hedging," or locking in the future price of milk to insure against losses from declining prices.

"When you're losing money in the cash market, you want to be making money in the futures market to offset those losses," says Philip Plourd, marketing director for the CSCE. "It's not magic; it doesn't ~~create~~ higher prices. But it's a tool."

The contract calls for delivery to plants in southern Wisconsin and northern Illinois. (In the case of the CME, the delivery region also includes Minnesota.) In reality, you won't be required to deliver the actual milk when the contract comes due. You will just continue to ship to your co-op or handler as you always have. That's because a contract is essentially a paper transaction. You buy back a contract for the milk before you must deliver it.

A contract is bought the same way it was sold — through a broker — at the going cash price, which usually follows the current Class 3 price. The contract you just bought cancels out delivery on the contract you sold.

If the price has gone down from the time you sold the contract, then you pocket the difference and have avoided a potential loss. But if, when you must purchase the contract, milk commands a higher market price and so costs more than when you sold, you have "lost" the opportunity to sell at a higher price. But you still have guaranteed the price you wanted in the first place.

Who benefits when the price goes up? Speculators and investors, who gamble on just such an occurrence. You have let them take the risk that they can make money on a price increase, while you take the certainty of a specific price. In this way, since speculators may have nothing to do with the dairy industry at all, futures trading can actually bring in dollars from outside the industry.

Cautious approach. Although generally favorable to the idea of trading milk futures,



The farmer's experience

the Northeast dairy industry is on the whole taking a wait-and-see approach before it jumps in with both feet.

To date, Dairylea Cooperative, based in Syracuse, N.Y., is the only co-op in the region to offer its members fixed price forward contracts for cheddar cheese futures. Since June 1995, members have been able to contract with Dairylea for a fixed price. The co-op hedges the price movement risk using the cheddar cheese futures traded at the CSCE.

"The whole idea of offering futures contracts is to take some element of risk out of pricing," says Jamie Zimmerman, the co-op's director of farm management services. "The farmer shifts the risk to us, and we hedge that risk on the futures. Through hedging, we're making up any loss."

Members can allocate up to 50 percent of their historical monthly milk production to a contract, with a minimum allocation of 20,000 lbs. It can be increased by 5,000 lb. increments.

But Dairylea, like other cooperatives, is holding off on milk futures until it becomes clearer what the relationship will be between the basic formula price (BFP) and the futures price.

Robert Wellington, president of Agri-Mark, says the co-op will likely get involved in trading futures, although not directly. "I don't think we'll buy and sell contracts for Agri-Mark, but I think we will want to make it easier for our members to participate, maybe through an association to reduce the cost of participating."

But Wellington said it is imperative that members who want to trade futures know their production cost and make sure they get a price that will cover that cost. ♦

Consider these trading tips

If you're thinking of trading in milk futures:

- Do your homework. Talk with brokers and take some courses.
- If you decide to get into trading, you'll have to contact a broker, open a futures trading account and sign a contract, putting down a deposit on your contract.
- Check with your cooperative. It may be offering a program.
- Calculate your cost of production carefully to know what price you'll need to cover costs and make some profit.
- Check out the differences between the programs offered by the Coffee, Sugar and Cocoa Exchange, and the Chicago Mercantile Exchange. For more information, contact the CSCE at 800/HEDGE-IT, or 212-742-6100, or contact the CME at 800-631-6532.

Dana Rudgers doesn't duck and hide when talk turns to futures markets. "I'm not afraid of them," says the Arica, N.Y., dairy farmer who milks 230 cows with his wife, Jody.

Locking in prices — whether for milk or grain — is smart business. "I want to be able to influence the price and limit the risk to cash flow," Rudgers explains.

In the fall of 1994, Rudgers looked at milk price projections for the spring of 1995 and decided they might be too low to cover his cost of production. It was then he forward contracted 50 percent of his 1995 milk production on the cheddar cheese exchange. A few months after that, Rudgers took a grain position for the fall of 1995.

Rudgers' cheese contracts were somewhat of a wash. He made a modest profit from sales in the month of February 1995 and broke even the months of May and July, before the cost of trading was figured in. Rudgers withstood margin calls for the month of September. In other words, money was withdrawn from his margin account, the deposit with his broker that ensures Rudgers will meet his contract's financial obligations.

"If we hadn't hedged, we would have been 15 to 17 cents ahead. But what if the price had gone as low as some people thought?" Rudgers says.

On the plus side, Rudgers cheese contracts prompted him to forward contract for feed ingredients. And those have saved him money on the farm's biggest expense.

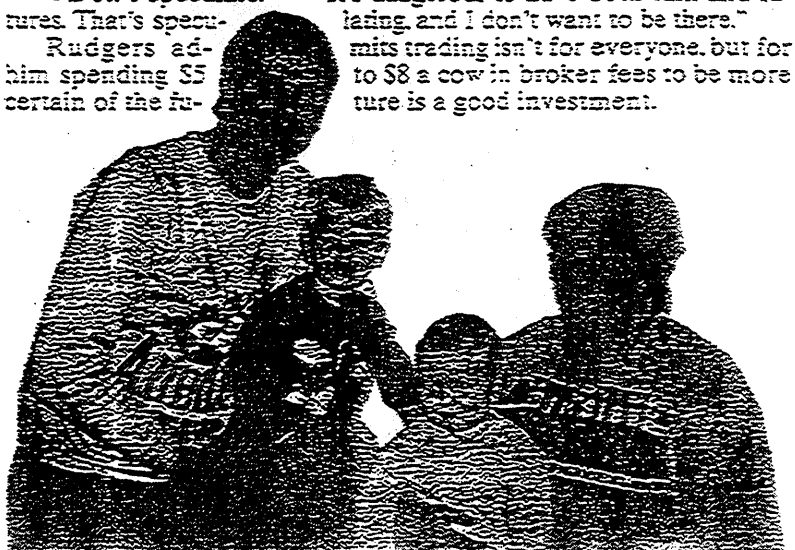
"If hadn't done milk, I wouldn't have done feed," Rudgers says. "I see a real advantage to forward contracting for my feed program. I booked 100 percent of our cottonseed and am saving about \$1,700 a month, as opposed to buying cottonseed on the spot right now."

Rudgers is taking a wait-and-see approach to forward contracting fluid milk. He wants more information on how the futures price compares to the basic formula price (BFP). This will be used as a basis.

"Once we know if contracts will trade at a discount or premium to the BFP, I'll decide what to do. Before I'd hedge more than 50 percent, I'd want the price to correlate to the BFP."

Now it's. Rudgers followed the same strategy for both cheddar cheese and grain trades. These are his trading dos and don'ts:

- Study hedging and get basis information.
 - Know your cost of production. There's no sense in trading if you don't cover your cost of production.
 - Select a knowledgeable broker. Rudgers pays a Wisconsin broker a flat fee based on the number of cows.
 - Don't make sales for the sake of making sales. "All decisions should be based on sound business."
 - Don't speculate. "It's dangerous to have both cash and futures. That's speculating, and I don't want to be there."
- Rudgers admits trading isn't for everyone, but for him spending \$5 to \$8 a cow in broker fees to be more certain of the future is a good investment.



Dana and Jody Rudgers, with Alton and Lyman.

Take Advantage of Milk Futures

By Shirley Roanfeldt

Use this marketing tool to lock in your milk price up to one year in advance.

"Nobody ever went broke locking in a profit with the futures market," says Avica, N.Y., producer Dana Rudgers.

Rudgers uses the futures market — both cheese and milk futures — to lock in a floor price for the milk he produces. Last year, he used the futures market to protect the price on 8 million pounds of milk, about half of his annual production.

Looking back, he says, by hedging that production, "I missed some of the peaks of the market, but I also locked out the lows." And, that's exactly what his marketing plan was designed to accomplish.

The futures market offers producers a tool to help minimize price risk. Before you make your decision about whether or not you should use fluid milk futures, consider the following points:

Take time to learn

You may feel that you don't have the time or know where to start learning about the futures market, but an

investment in time now can change the bottom line of your business for years to come.

By using the futures market, you can set the price you will receive for the milk you produce. No longer do you have to settle for whatever milk price comes your way, says Mike Downes, commodity broker and dairy producer in Augusta, Wis. "Using this tool allows me to lock in

some people believe, futures contracts were not designed as an alternative delivery point for your product. The contracts were designed as a price protection tool, with milk delivery going to your regular co-op.

Sure, delivery is listed as an option. But that option exists to help ensure convergence of the futures and cash-market price, says Jim Bowe, senior vice president of market development and planning for the CSCE. And, yes, when the cheddar cheese futures market began in 1993, there were some cases when the market lacked the liquidity — trading activity — to allow people to close out their position. However, the fluid milk market has six times the volume of the cheddar cheese market. That alone means more trading activity. In addition, the CSCE has created a Registered Market Maker program to help

ensure liquidity.

Through this program, three traders have committed to be on the CSCE trading floor during trading hours offering to buy and sell milk contracts. That means, Bowe says, if anyone wants to buy or sell a contract, there will always be someone on the trading floor willing to do so.

Size not important
With a contract size of only 50,000 pounds, all producers — big and small alike — can use the futures market to lock in

their milk price.

For example, if you have 40 cows averaging 50 pounds of milk per day, that's 80,000 pounds of milk each



Finding a broker

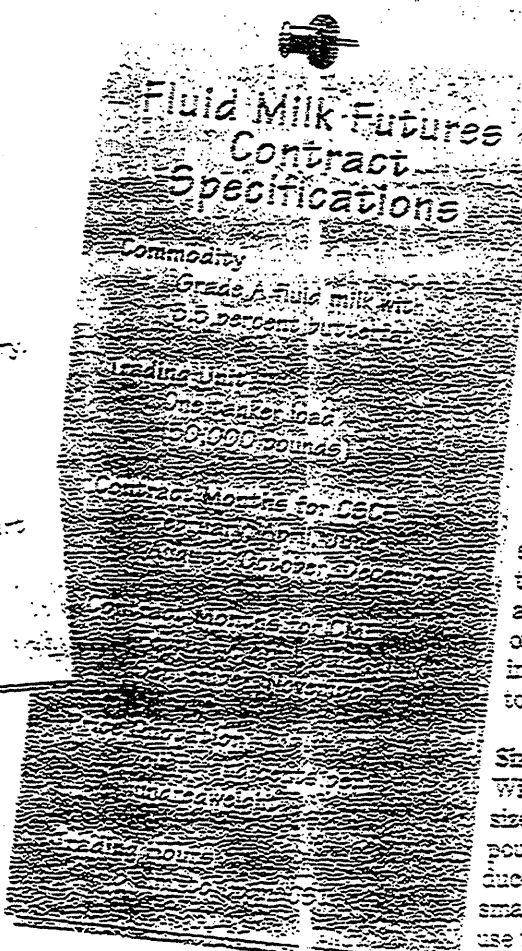
- ✓ Look for a broker who has experience trading commodities.
- ✓ understands agriculture.
- ✓ understands the dairy industry.
- ✓ already has producers as clients.

The following directory, available from the Coffee, Sugar & Cocoa Exchange, is a good place to start looking. Call 800-455-4545 to request a copy.

Dairy Futures Commission Merchant Directory

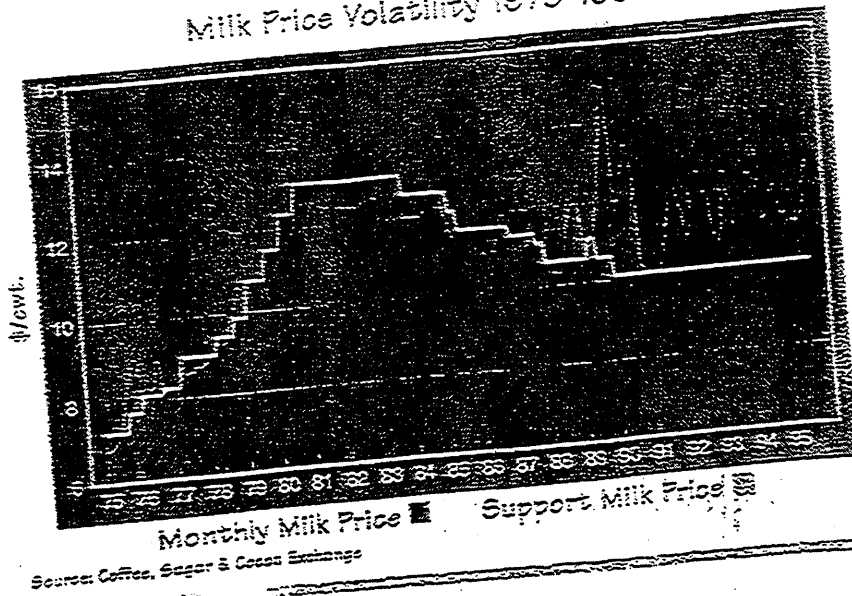
a price for my milk" which sometimes is more than what other producers who choose not to use futures will receive.

Learning about hedging is just one aspect of understanding the futures market. (See "Where To Go For Help" on page 12.) Contrary to what





Milk Price Volatility 1975-1995



month. Since futures contracts are offered every other month, you could use one futures contract to lock in the price for almost half of your milk production for those two months.

Locking in a price for the milk you produce removes you from a speculative or risky position. Yes, as a producer who has bought cows to produce milk, you are speculating that you will get a price which will more than cover your cost of production, says Downes. The futures market allows you to reduce your price risk by locking in a price for your milk.

Minimize price volatility

By using futures you can lock in a more constant and stable price for your milk and avoid the extremes of the cash market.

Since 1989, cash market prices for Grade A milk have fluctuated between \$14.98 and \$10.02. Price swings of \$1.50 to \$2 within one year have been common. (See "Milk Price Volatility 1975-1995" above.)

Locking in your price doesn't mean you will always get the peak price, but that's the tradeoff for protecting yourself from the low price, explains Bob Cropp, agricultural economist at the University of Wisconsin. You should use futures to lock in a profitable price for your operation and manage your price risk — not to chase the peak price.

In a study conducted by

University of Wisconsin and Louisiana State University agricultural economists, researchers concluded that producers in the Upper Midwest may be able to use hedging of milk futures to reduce milk price volatility by up to 50 percent. That means, if the market price fluctuates by \$2 per year, by using futures, you could reduce that range to \$1.

In other federal milk marketing orders outside the Upper Midwest, Cropp says, similar benefits from hedging would be expected. However, because California is not in the federal milk market orders, hedging opportunities there will be of similar magnitude only in the latter months of the year.

Over the long run, Cropp says, when comparing cash market prices and locking in prices through the futures market, most studies show the price received will average out to be the same, or offer a slight advantage in the cash market. But remember, he says, the advantage of using futures comes in terms of protecting yourself from the down side of the market, and limiting your price risk exposure.

Know your price a year in advance

By using the futures market you can lock in your price up to one year in advance. Knowing what price you will receive in advance can help you make better financial decisions throughout the year.

So, if you have some improvements you'd like to make, such as installing head gates in your heifer barn, you can use cheese and milk futures to help you know when you can best afford to make those improvements. For example, if you know that six months down the line you have locked in 50-cents-per-hundredweight over the cost of your production more for your milk than you receive today, you can use that extra income to help cash flow planned improvements.

Another advantage to locking in your milk price up to one year in advance is that you can show your banker a guaranteed income for repayment of a loan.

Locking in a milk price eliminates some of the risk for each party, says Greg Steele, assistant vice president of commercial credit at Farm Credit Services in River Falls, Wis.

Historically, milk price volatility has been out of a producer's control. But with milk futures, dairy producers now have a tool to provide themselves a price floor.

When a producer comes in with a business plan that includes locking in a futures price, says Steele, "that tells me a lot about this producer. To me, it says he is a financially astute businessman, who knows his cost of production." Dairy producers can learn a lot from grain, hog and cattle producers who have been using futures to lock in prices for years. Those producers already know that locking in prices enhances their credit, he says. Sometimes that factor helps tip the scales in favor of them getting the loan.

The futures market provides you with the tools to reduce your price volatility. When used for price protection, you can expect positive results. ■

Where to go for help

The Coffee, Sugar and Cocoa Exchange (800-333-4349) and the Chicago Mercantile Exchange (800-333-3332) have educational seminars for milk futures. They also do educational programs and one-on-one instruction of fundamental concepts by phone.

In addition, your local Extension office and the economic development office of the nearest university can help you get started.

DECEMBER 17, 1985

Bacon's

DAIRY

Exchanges establish market for milk futures

Price volatility has been unsettling to the dairy industry.

ASSOCIATED PRESS



Moo-ve over, traders. Milk money is taking on a new meaning as two commodity exchanges uncap competing milk futures contracts.

The instruments, launched Wednesday on New York's Coffee, Sugar & Cocoa Exchange and Jan. 21 on the Chicago Mercantile Exchange, are designed to help dairy farmers, cheese makers and speculators profit from unstable milk prices as federal price supports erode.

The exchange, where milk futures stems from the volatility of milk prices since 1980, when the government reduced its milk support price to \$10.10 per hundred pounds after holding it near \$18 for much of the 1970s.

Free market: The reduction in the government-guaranteed price moved the \$20 billion milk industry closer to a free market. Prices have rarely dropped as low as \$12.10 since then, mainly fluctuating between \$11 and \$13 per hundredweight

in response to supply and demand pressures.

The price volatility has been unsettling for milk producers and cheese, butter and ice-cream makers because it increases their financial risk. In 1983, they approached both the Merc and the CME about creating a milk futures market to transfer risk to speculators.

What it does: A futures contract is a promise to buy or sell a commodity — in this case, 50,000 pounds of milk — on a future date at a specified price. Producers and users trade the contracts to lock in prices; speculators trade them in hopes of profiting from price fluctuations.

Neither exchange saw so much future in milk futures six years ago, but the price volatility and the likelihood of further government withdrawal from the market persuaded them to take another look.

"Buyers and sellers are both at risk and they will be at more risk when the price support structures drop. I don't think there's any doubt the support structures will drop," said Jack Cook, senior research analyst at the Merc.

If milk futures attract enough traders to create a viable market, one exchange will almost certainly emerge as the dominant marketplace.

DECEMBER 1995
Bacon

Fluid milk contracts to begin

Two big commodity exchanges are in a foot race to offer futures contracts on fluid milk. The Chicago Mercantile Exchange (CME) will begin trading fluid contracts January 11, 1996.

Out in New York, the Cocoa, Sugar and Coffee Exchange (CSCC) will start trading fluid milk contracts on January 23, 1996.

How well these contracts take off is linked to what happens to the Farm Bill during the late going. At press time, the Farm Bill package was in joint conference. Since the bill is linked to the budget bill, we won't venture an opinion about the outcome. Dairy markets will be deregulated further, or the present set of marketing parameters will continue with some modifications.

What the two commodity exchanges are banking on is total deregulation of dairy marketing. Such a move by Congress will

essentially force many of the organizations now handling fluid milk into the futures markets.

Under deregulation, price supports and the price setting functions of Federal Milk Marketing Orders (FMMO) will end. When that happens, most milk market watchers expect milk prices to fluctuate - even more than they have in the past few years.

When commodity prices start jumping around, the use of future contracts and other such commercial price-setting tools becomes much more attractive, if not outright necessary.

We say using futures will become necessary not because we are major promoters of futures and options but as a matter of fact. Firms handling fluid milk may well be liable for the losses suffered by patrons in the event of a drop in the price of milk. Why? Because of the availability of the futures

market.

The logic is thus: A means exists to protect a market price. A firm that does not protect its price is negligent and therefore responsible for the losses. Maybe you don't want to hear this, but such cases have come up in the grain marketing area.

In a nutshell, these contracts will act much like other commodity contracts and options if you have experience with those markets. Milk marketing co-ops and other milk companies should be able to devote the resources to learning how to use these markets fairly quickly.

A Farm Bill more moderate in nature will buy some time. However, the long-term trend, like it or not, in the dairy marketing area is toward deregulation. Since futures trading will begin anyway, there is no better time than the present to begin the learning curve.

One of the questions being asked by brokers

around the country is what level of actual farmer trading is likely to take place. Most brokers do expect firms using or marketing large amounts of milk to come into the futures market in some way. What farmers will do is more of a question mark.

There are many farmers, especially in Wisconsin and the Midwest, that have experience using futures to market grain, beef and hogs. Those dairy farmers with prior exposure to futures markets are in a better position to make a judgment about using such markets in their dairy businesses.

Are futures markets the salvation of the dairy business? Hardly. Low prices are low prices, just ask your friends in the hog and beef markets right now. However, ignorance is no excuse for letting opportunities slip away.

By Sevie Kenyon

World's First Milk Futures Contract Seeks Splash Hit

Traders Hope It's Sweeter Than Sugar

By ALAN GERSTEN
Journal of Commerce Staff

NEW YORK — With a cow bell ringing in their ears and price supports falling at their feet, traders at the Coffee, Sugar & Cocoa Exchange Inc. started the world's first milk futures contract Tuesday morning.

"We wanted to make today that was our first goal," said Jim Bove, senior vice president at the Coffee, Sugar Exchange. The ultimate goal would be to make milk the exchange's most active contract, replacing the current leader, sugar.

Theoretically, it could happen. There are more dollars in milk than sugar," Mr. Bove said.

His boss, Brian Kelly, exchange chairman, agreed. "Milk has become a very dynamic commodity over the last several years, experiencing unprecedented price volatility. This is all about to change and the milk industry needs to have tools to manage their risk. Just like the other commodities, we have to give them the tools they need."

Mr. Bove said that when government price supports for milk fell during the past year, the price of milk fell from 19¢ to 16¢. The Federal government gave a price support of 17¢, which was not enough to cover the cost of production. Mr. Bove said that the price of milk has fallen to 10¢.

It's still a shock, but farmers will go bankrupt if they don't get the price of milk above the cost of production," Mr. Bove said.

But the farmers, and the milk processors, need a way to manage their risk. The exchange is working on the milk futures contract. It's still a shock, but farmers will go bankrupt if they don't get the price of milk above the cost of production," Mr. Bove said.

idea is based on supply and demand. For example, if farmers or co-ops fear the price of milk will drop, they could take a short position in futures.

This means if the price goes down, the farmer or co-op is in money on the futures contract. It would offset a price decline in cash price of milk, enabling farmer or co-op to hedge the risk.

Speculating traders have no holdings and are only interested in making a profit. This combination of hedgers and speculators provides enough volume to keep futures markets functioning.

"Speculators will enter the (futures) marketplace because of volatility," Mr. Bove said.

Where there's movement, the money, say future traders.

Little more on the related cheese contract, which the exchange started in 1953, but is now "alive," Mr. Bove said.

For the first three months, Bove hopes to get 100 to 200 trades daily for milk futures. "People trade a little bit to see how delivery system works. It's also holiday season," said Mr. Bove. "I first expected volume to move up during December."

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MILK: Milk futures made their debut on New York's Coffee, Sugar & Cocoa Exchange with 124 contracts traded, more than exchange officials said they had expected. "We had contracts for February, April, June and August that traded," says Jim Bove, senior vice president at the

exchange. That, traders say, is a positive sign for a new contract seeking to build volume in a range of months. Mr. Bove says members recruited to make a market in milk futures accounted for some of the trading, while curious brokers from other pits also participated in the day's activity. The February milk contract, which calls for the delivery of 50,000 pounds of Grade A raw milk with 3.5% butterfat content, closed at \$12.30 per 100 pounds.

THE WALL STREET JOURNAL

WEDNESDAY, DECEMBER 13, 1955

CSCE To Expand Cheddar, NDM Trading Hours When Milk Futures Start Dec. 12

New York—Effective December 12, the trading hours for the Coffee, Sugar & Cocoa Exchange, Inc.'s (CSCE) Cheddar cheese and nonfat dry milk futures and options contracts will be changed to 9:15 a.m. to 2:00 p.m., Eastern time, from the current hours of 1:45 p.m. to 2:45 p.m.

The change coincides with the launch of the CSCE milk futures contract on December 12; all three markets will have a full trading day of 9:15 a.m. to 2:00 p.m.

"With this change, the CSCE dairy markets — Cheddar cheese, nonfat dry milk and milk futures and options — will all trade at the same time in the same trading ring on the CSCE trading floor," noted Bennett J. Corn, CSCE president. "Dairy market participants will be able to access the markets on a full-time basis."

The CSCE milk futures contract calls for the delivery of 50,000 pounds (one tanker truck load) of Grade A raw milk delivered FOB at certified plants, receiving stations or transfer stations located in the Madison, WI district. Delivery months are February, April, June, August, October and December.

At a CSCE milk futures and options

educational workshop in Madison, WI, on Monday, Alto Dairy president and general manager Larry Lemmenes noted that hedging using the CSCE's new milk futures and options contracts can provide several benefits:

- The price/cost of goods sold/bought can be known earlier.
- Greater accuracy of operating budgets.
- Improved cash flow management.

Lemmenes noted that there has been considerable price risk in the dairy industry in recent years. "Dollars at risk" in the milk market last year totaled \$2.85 billion, based on cash market value of \$19.8 billion and annualized volatility (market value times percent volatility) of 14.35 percent.

He explained that a futures contract is a standardized, legal agreement to make or take delivery of a specified quantity and grade of a commodity at an established point in the future at an agreed upon price.

There are several differences between the futures market and the cash market, Lemmenes noted:

- The cash market involves "immediate" transactions; futures transactions are for up to 18 months out.
- The cash market always involves movement of physical product; futures rarely involves delivery. In fact, the futures market is a financial tool; it's not designed to be a delivery tool.
- Futures positions can be easily offset.
- Hedging is a pricing procedure, not a procurement or production procedure.

More information on the CSCE's dairy markets is available from the Exchange marketing and communications department at (800) HEDGE IT.

Circ - (17) 80,252 (8) 87,825

DECEMBER 18, 1935
Bacon's

Exchanges aim to milk futures

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Moo-ve over traders. Milk money is taking on a new meaning as two commodity exchanges uncap competing milk futures contracts.

The instruments, launched Tuesday on New York's Coffee, Sugar & Cocoa Exchange and Jan. 11 on the Chicago Mercantile Exchange, are designed to help dairy farmers, cheese makers, and speculators profit from unsteady milk prices as federal price supports erode.

"It's very difficult for a producer to plan for the future. This should bring some stability to the producer market," said Thom Wilborn of the National Milk Producers Federation.

Northeastern Wisconsin farmers, whose herds average fewer than 100 cows, likely would have to turn to their milk handlers to participate in a futures pool. Farmers with 250 or more cows probably have sufficient production to meet minimum requirements.

The exchanges' interest in milk futures stems from the volatility of milk prices since 1930, when the government reduced its milk price to \$10.10 per hundred pounds after holding it near \$18 for much of the 1920s. The reduction in the government-guaranteed price moved the \$20 million milk industry closer to a free market. Prices have widely dropped as low as \$10.10 since then, generally fluctuating between \$11 and \$13 per 100 pounds in response to supply and demand pressures.

If milk futures attract enough traders to create a viable market, one exchange will emerge as the dominant marketplace. Historically, the first exchange to launch a contract was the stock market, the best known of the stock, bond, currency and livestock contracts — has high hopes.

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Exchanges milking futures

By DAVID DISHNEAU

AP Business Writer

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The instruments, to be launched Tuesday on New York's Coffee, Sugar & Cocoa Exchange and Jan. 11 on the Chicago Mercantile Exchange, are designed to help dairy farmers, cheese makers and speculators profit from unsteady milk prices as federal price supports erode.

"It's very difficult for a producer to plan for the future. This should bring some stability to the producer market," said Thom Williams of the National Milk Producers Federation.

For the Merc and the much smaller CSCO, the milk rivalry reflects the intense search by the

industry for a market to

replace the price supports

that will support us," said

Jim Howe, head of market devel-

opment at the CSCO.

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The reduction in the government-guaranteed price moved the \$20 billion milk industry closer to a free market. Prices have rarely dropped as low as \$10.10 since then, mainly fluctuating between \$11 and \$13 per hundredweight in response to supply and demand pressures.

The price volatility has been unsettling for milk producers and cheese, butter and ice-cream makers because it increases their financial risk. In 1989, they approached both the Merc and the CSCO about creating a milk futures market to transfer that risk to speculators.

A futures contract is a promise to buy or sell a commodity — in this case, 50,000 pounds of milk — on a future date at a specified price. Producers and users trade the contracts to lock in prices; speculators trade them in hopes of profiting from price fluctuations.

Neither exchange saw so much future in milk futures six years ago. But the price volatility and the likelihood of further government withdrawal from the market persuaded them to take another look.

Buyers and sellers are both at risk and they will be at more risk when the price support structures drop. "Don't think there's any doubt the support structures will drop," said Jack Cook, senior research analyst at the Merc.

Local milk futures attract about 100 traders to create a viable market, one exchange will almost certainly emerge as the dominant marketplace. Historically, the Merc exchange to launch a contract wins the race but the Merc has high hopes.