

NATIONAL DAIRY MARKET NEWS AT A GLANCE

CME GROUP CASH MARKETS (10/14):

BUTTER: Grade AA closed at \$1.8350. The weekly average for Grade AA is \$1.8140 (+.0505).

CHEESE: Barrels closed at \$1.6900 and 40# blocks at \$1.6900. The weekly average for barrels is \$1.7210 (+.0200) and blocks, \$1.7030 (-.0310).

BUTTER HIGHLIGHTS: The CME Group cash butter price rebounded to close the week at \$1.8350, up 6.5 cents from last Friday. Churning remains seasonally active as cream offerings remain heavy. Packagers are trying to reduce their bulk butter inventory while still using the available fresh cream. Printing is seasonally active. Retail feature activity is picking up seasonally. Through most of the country, butterfat tests in incoming milk supplies are on the rise seasonally. It is still early for making most holiday specialties, so competition for cream remains light. According to FAS, U.S. butter and milkfat exports during August totaled 12.6 million pounds, 5% below August 2010. Cumulative 2011 exports total 111.9 million pounds, 30% above the comparable period in 2010.

CHEESE HIGHLIGHTS: The CME Group cash cheese market continues to move higher and lower within a trading range. Both closed on October 14 at \$1.6900. Natural orders are steady to improved though still lacking much of the usual seasonal aggressiveness. Process interest is generally steady. The time available to fill and ship finished product orders to be available for Thanksgiving sale and use is disappearing fast. Some manufacturers continue to have difficulty in acquiring needed milk volumes to fill specialty orders in parts of the Upper Midwest though offerings seem at least adequate elsewhere. Cheese yields are improving as milk components increase. Manufacturing milk volumes are steady to lower seasonally. According to FAS, August U.S. cheese and curd exports totaled 34.2 million pounds, down 10% from August 2010. Cumulative January - August exports total 333.7 million pounds, 33% above the same period last year. This equates to 4.8% of U.S. total cheese production.

FLUID MILK: Milk production in the Southwest U.S. is trending steady with only minor variations noted. Processing plants are generally running well with some taking downtime for maintenance and repairs. Additional volumes of milk are moving out of the region to supplement needs towards the Southeast. In the Southeast, milk output is steady to slightly higher. Class I needs are high in Florida and 98 spot milk loads were imported to supplement supply levels. In the Northeast, milk production is steady and at levels where processing schedules are light after the good pull for Class I needs. In the Midwest, milk output is trending lower seasonally in the upper tier of states, with the supply often sporadic to fill local orders. Gains are noted in solids of incoming milk. Southern areas affected by drought are seeing movements of milk cows to other states.

DRY PRODUCTS: Nonfat dry milk prices continue to trend lower in all regions. Demand factors are weaker and pricing levels are under pressure

when competing against domestic resale offering and export pricing for other exporting countries. Dry buttermilk prices are trending mostly steady in a lighter test than in recent weeks. Producers' offerings have slowed for multiple load deals and buyers are finding fewer loads. There are some delays occurring in securing loads. Dry whey prices are trending higher. Export sales are under pressure because of lower priced whey in the world market. Prices for 34% whey protein concentrate are trending lower. Additional loads are being offered on the market and buyer interest has slowed or shifted to other protein sources, including NDM. Lactose pricing levels are slightly higher after a big gain last week and reflect the inclusion of new fourth quarter contract pricing. Offerings remain light. Trade concerns about pricing are at a level where buyers look for alternative products.

INTERNATIONAL DAIRY MARKET NEWS (DMN): The milk production season is off to a great start across the **OCEANIA** region. News accounts are reporting **NEW ZEALAND** milk intakes at up to 13% above year ago levels and further note that milk procurement schedules are tight in getting the milk off the farms. Favorable winter weather conditions and good springtime conditions have created a platform for good milk producing conditions. Pasture growth has been good and providing good feed for cows. A factor in the big percentage changes is that at this time last year, the season was off to a poor start. Yearly milk output estimates are being adjusted slightly higher. Milk pricing levels are being held steady. **AUSTRALIAN** milk production is trending upwards. Early season growth levels are reported at 1-4% higher overall than a year ago. Best localized milk gains are currently noted in the Tasmanian and Northern Victorian regions. The percentages are variable and dependent on the region. Water conditions are good heading into the growing season and volumes are projected to be adequate for needs. Pasture growth is good and conditions are greening. Processing plants are operating well to handle the milk supplies. Dairy product prices are best described as "drifting" in early season trading. Competition from U.S. and EU dairy products, weaker Euro values, and slower international demand are all impacting the Oceania region. Supplies are building as the milk production season builds. Processing plants are running on heavy schedules to handle the growing milk supplies. There are a wide array of products being made, typical for the early season. At the g/DT event on October 4, dairy product pricing results were mixed. The seasonal milk production trend lower for **Western European** countries continues to develop. Weather conditions have been favorable for farm level milk output. Some countries are receiving rains and cooler conditions, which are beginning to moderate output. Production gains over year ago are more modest than has been the case. Gains over year ago are more prevalent in France, Austria, and Ireland, noted from trade

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CME GROUP CASH TRADING

COMMODITY	MONDAY OCT 10	TUESDAY OCT 11	WEDNESDAY OCT 12	THURSDAY OCT 13	FRIDAY OCT 14	WEEKLY CHANGE*	WEEKLY AVERAGE#
CHEESE							
BARRELS	\$1.7350 (-.0500)	\$1.7200 (-.0150)	\$1.7300 (+.0100)	\$1.7300 (N.C.)	\$1.6900 (-.0400)	:: (-.0950)	:: \$1.7210 (+.0200)
40# BLOCKS	\$1.7650 (N.C.)	\$1.7000 (-.0650)	\$1.6800 (-.0200)	\$1.6800 (N.C.)	\$1.6900 (+.0100)	:: (-.0750)	:: \$1.7030 (-.0310)
NONFAT DRY MILK							
EXTRA GRADE	\$1.5800 (N.C.)	\$1.5800 (N.C.)	\$1.5800 (N.C.)	\$1.5800 (N.C.)	\$1.5800 (N.C.)	:: (N.C.)	:: \$1.5800 (N.C.)
GRADE A	\$1.4900 (N.C.)	\$1.4900 (N.C.)	\$1.4900 (N.C.)	\$1.4900 (N.C.)	\$1.4900 (N.C.)	:: (N.C.)	:: \$1.4900 (N.C.)
BUTTER							
GRADE AA	\$1.7800 (+.0100)	\$1.8000 (+.0200)	\$1.8200 (+.0200)	\$1.8350 (+.0150)	\$1.8350 (N.C.)	:: (+.0650)	:: \$1.8140 (+.0505)

NATIONAL DAIRY MARKET NEWS AT A GLANCE

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reports. Milk prices remain favorable for producers. There is discussion about countries being over quota, what penalties could occur, and whether the milk price returns would best any penalty costs. Dairy product prices and export options are being affected by currency fluctuations making European prices more expensive to buyers. Butter and butteroil prices remain above other world prices and are limiting exports. Demand is good for local accounts. Skim milk powder prices are competitive, but demand is light into export markets. Whole milk powder pricing levels are mixed and remain higher than the Oceania region. Dry whole whey prices are steady but priced competitively into export channels. There are opportunities to take whey market share away from other exporting countries. **Eastern European** milk production trends are continuing to show seasonal declines in total output. Milk volumes entering processing plants are lower, yet processors are manufacturing a wide variety of products for local and international marketing. Trading activity into international channels continues to trend lower, mostly due to the relatively high prices compared to other regions. Currency valuations have also made export prices more expensive to world customers.

OCTOBER MILK SUPPLY AND DEMAND ESTIMATES (WAOB):

The milk production forecast for 2011 is raised as the dairy herd has been expanding at a more rapid rate and milk per cow during the summer increased more rapidly than expected. However, the forecast for 2012 is reduced as forecast lower milk prices and weakening milk-feed ratios increase the pace of later year declines in cow numbers. Fat basis exports are lowered for 2011 on slightly weaker butter and cheese exports, but are unchanged for 2012. Skim solids exports are unchanged for 2011 but are lowered for 2012. Import forecasts are unchanged. Butter and cheese prices for 2011 are forecast lower, but the nonfat dry milk (NDM) price forecast is unchanged and whey prices are forecast higher. International prices have been weaker which has put some pressure on butter and cheese prices. Butter and cheese price forecasts are also reduced for 2012. NDM prices have also been under pressure from weakening international prices and although the forecast for 2011 is unchanged from last month, the price forecast for 2012 is reduced. Whey prices are raised for both 2011 and 2012 as demand is strong. The Class III price is lowered for 2011, but for 2012 the higher whey price more than offsets a decline in the cheese price, and the Class III price forecast is raised. The Class IV price is lowered for both years due to lower forecast butter and NDM prices. The all milk price forecast is lowered to \$20.00 to \$20.10 for 2011, and \$17.75 to \$18.65 for 2012.

JULY MAILBOX MILK PRICES (FMMO & CDFA): In July 2011, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$21.74, up \$0.86 from the previous month average, and up \$5.92 from July 2010. The component tests of producer milk in July 2011 were: butterfat, 3.56%; protein, 2.95%; and other solids, 5.72%. On an individual reporting area basis, mailbox prices increased from the previous month in all Federal milk order reporting areas. Mailbox prices in July 2011 ranged from \$24.50 in Florida to \$19.97 in New Mexico.

CME GROUP

MONDAY, OCTOBER 10, 2011

CHEESE -- SALES: 5 CARS BARRELS: 1 @ \$1.7400, 1 @ \$1.7375, 3 @ \$1.7200; 1 CAR 40# BLOCKS @ \$1.7650; LAST BID UNFILLED: 1 CAR BARRELS @ \$1.7350; LAST OFFER UNCOVERED: 1 CAR BARRELS @ \$1.7500
 NONFAT DRY MILK -- SALES: NONE; LAST BID UNFILLED: NONE; LAST OFFER UNCOVERED: NONE
 BUTTER -- SALES: NONE; LAST BID UNFILLED: 2 CARS GRADE AA @ \$1.7800; LAST OFFER UNCOVERED: NONE

TUESDAY, OCTOBER 11, 2011

CHEESE -- SALES: 5 CARS BARRELS: 1 @ \$1.7300, 1 @ \$1.7225, 3 @ \$1.7200; 4 CARS 40# BLOCKS: 3 @ \$1.6900, 1 @ \$1.7000; LAST BID UNFILLED: NONE; LAST OFFER UNCOVERED: 1 CAR 40# BLOCKS @ \$1.7100
 NONFAT DRY MILK -- SALES: NONE; LAST BID UNFILLED: NONE; LAST OFFER UNCOVERED: NONE
 BUTTER -- SALES: 1 CAR GRADE AA @ \$1.8000; LAST BID UNFILLED: 1 CAR GRADE AA @ \$1.7900; LAST OFFER UNCOVERED: NONE

WEDNESDAY, OCTOBER 12, 2011

CHEESE -- SALES: 1 CAR BARRELS @ \$1.7300; 4 CARS 40# BLOCKS: 2 @ \$1.6950, 2 @ \$1.6850; LAST BID UNFILLED: 1 CAR BARRELS @ \$1.7300; 2 CARS 40# BLOCKS @ \$1.6750; LAST OFFER UNCOVERED: 1 CAR 40# BLOCKS @ \$1.6800
 NONFAT DRY MILK -- SALES: NONE; LAST BID UNFILLED: NONE; LAST OFFER UNCOVERED: NONE
 BUTTER -- SALES: NONE; LAST BID UNFILLED: 1 CAR GRADE AA @ \$1.8200; LAST OFFER UNCOVERED: NONE

THURSDAY, OCTOBER 13, 2011

CHEESE -- SALES: 2 CARS BARRELS: 1 @ \$1.7000, 1 @ \$1.7300; 2 CARS 40# BLOCKS: 1 @ \$1.6775, 1 @ \$1.6800; LAST BID UNFILLED: 1 CAR 40# BLOCKS @ \$1.6800; LAST OFFER UNCOVERED: 1 CAR 40# BLOCKS @ \$1.7300
 NONFAT DRY MILK -- SALES: NONE; LAST BID UNFILLED: NONE; LAST OFFER UNCOVERED: NONE
 BUTTER -- SALES: NONE; LAST BID UNFILLED: 1 CAR GRADE AA @ \$1.8350; LAST OFFER UNCOVERED: NONE

FRIDAY, OCTOBER 14, 2011

CHEESE -- SALES: 1 CAR BARRELS @ \$1.6800; LAST BID UNFILLED: 1 CAR BARRELS @ \$1.6900; 1 CAR 40# BLOCKS @ \$1.6900; LAST OFFER UNCOVERED: 1 CAR 40# BLOCKS @ \$1.7300
 NONFAT DRY MILK -- SALES: NONE; LAST BID UNFILLED: NONE; LAST OFFER UNCOVERED: NONE
 BUTTER -- SALES: NONE; LAST BID UNFILLED: NONE; LAST OFFER UNCOVERED: 1 CAR GRADE AA @ \$1.8500

BUTTER MARKETS

NORTHEAST

The CME butter price increased 2 cents Tuesday and closed at \$1.8000. In the last 4 trading sessions butter prices have increased a total of \$0.0425. Cream remains readily available and moving to churning operations, though some demand increases were noted among cream cheese makers. Most plants are making butter and continuing to rotate inventories by microfixing product for current orders and then adding current production to inventories. Retail yearend/holiday orders are increasing with private label orders particularly strong and limiting inventory expansion. Production of unsalted butter for domestic sales has increased. The stronger U.S. dollar, compared to the Euro, has weakened export demand. According to ERS, commercial disappearance of butter for the Jan. – Jul. 2011 period totals 970.1 million pounds, up 10.0% compared to the same period a year ago. Prices for bulk butter range 6-8 cents over the market, based on the CME Group with various time frames and averages used.

CENTRAL

At the CME Group cash butter market, AA butter has increased 6.25 cents from since last Wednesday to \$1.8200 on October 12. Cream interest is still generally quiet from most users other than cream cheese or churns. Churns are trying to fill orders from fresh cream and are also micro-fixing bulk supplies. Printers are trying to minimize bulk inventory before holiday orders are filled. Print supplies for fall/holiday promotions are being prepared and shipped. Some operations will start manufacturing limited quantities of high fat holiday specialties such as whipping cream soon. Bulk butter prices range from 2 - 4 cents over various pricing bases and averages per pound.

WEST

Butter trading on the CME Group for Wednesday closed \$.0200 higher at \$1.8200. The price has increased four of the last five trading sessions. The price is up \$.0625 from last Wednesday's close. Sales continued light with only one sale recorded this week. The Western butter markets are firm to stronger. Cream supplies are readily available into moderate demand. Churns are active as butter manufacturers take advantage of the additional cream. Butter demand is building as the holiday season nears. Many churns are clearing inventories as fast as product passes testing. Buyers are looking to purchase for fall needs. Print butter manufacturing is leading the demand. Bulk demand is described as light to moderate. Prices for bulk butter range from even to 4 cents under the market, based on the CME with various time frames and averages used.

U.S. Butter and Milkfat Exports, (USDA-FAS)

	2011 Exports Monthly Exports	% Change From 1 Year Ago
August	12.6	- 5
	Jan.- Aug (Million Lb.)	1 Year Ago
World	111.9	+ 30
Saudi Arabia	19.8	+ 29
Mexico	11.7	+ 36
Japan	10.5	+2,916
Canada	9.5	+ 46
Morocco	7.9	+ 27

NASS DAIRY PRODUCT PRICES
U.S. AVERAGES AND TOTAL POUNDS

<u>WEEK ENDING</u>	CHEESE 40# BLOCKS	CHEESE BARRELS 38% MOISTURE	NDM	BUTTER	DRY WHEY
October 8	1.7475 11,409,933	1.7080 10,320,885	1.5415 16,674,684	1.7579 4,666,076	0.6029 6,218,733

CHEESE MARKETS

NORTHEAST

The CME Group cheese prices declined Tuesday with barrels dropping \$0.0150 to close at \$1.7200, while blocks dropped \$0.0650 and closed at \$1.7000. The decline in the block price was the largest decline since it dropped 9 cents on August 23. Wholesale prices moved higher following last week's weekly average price increases with Process 5# sliced cheese increasing \$0.0425, while Cheddar 40# blocks and Muenster increased \$0.0125. Cheese production remains steady at increased levels prior to the end of year holidays. Orders continue to be good for most cheese varieties, especially mozzarella and cream cheese. Domestic cheese sales received a boost from the USDA's invitation to purchase 72.2 million pounds of various processed cheese items for delivery next year. Exports also saw some increase in activity as Cooperatives Working Together (CWT) accepted 10 requests for export assistance to sell 2.7 million pounds of cheddar cheese to Asia, North Africa and the Middle East with delivery from October through December 2011. According to ERS, Commercial Disappearance of American cheese for the Jan. - Jul. 2011 period totals 2,491.0 million pounds, up 1.5% compared to the same period a year ago. Disappearance of cheese in the Other category totals 3,788.3 million pounds, up 5.6% for the same period a year ago.

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

Cheddar 40# Block	:	2.0500-2.3250
Process 5# Sliced	:	1.8100-2.1200
Muenster	:	2.0700-2.2750
Grade A Swiss Cuts 10 - 14#	:	3.9325-4.2550

MIDWEST

The cheese market seems to be stuck within a trading range, moving up and down yet unable to break out. Orders continue to react to the price fluctuations on the CME Group cash cheese market, heavier after increases and slower after declines. Natural orders are generally steady to occasionally improved with overtime needed but not widespread. Process orders are fairly steady with recent weeks. The time available to fill orders for Thanksgiving use is narrowing, particularly as trucking issues seem to become more noticeable for some shippers. Bulk cheese orders are keeping most plants operating on stronger schedules. Some tightness is noted on certain current natural varieties but most buyers are able to cover immediate needs with backup suppliers. Aged cheddar interest is improving seasonally though buyers are most interested in product stored at lower market prices. Cheese production is generally steady to occasionally heavier, with milk volumes little changed though yields are up. Spot milk availability varies with some states such as Michigan, Indiana, and Ohio with adequate volumes while others, such as Wisconsin, remain tight to occasionally short of needs.

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

Process American 5# Loaf	:	2.0600-2.4800
Brick And/Or Muenster 5#	:	2.2425-2.6000
Cheddar 40# Block	:	2.2425-2.8650
Monterey Jack 10#	:	2.2050-2.8650
Blue 5#	:	2.4975-3.2700
Mozzarella 5 - 6# (Low Moisture, Part Skim)	:	2.0775-2.9650
Grade A Swiss Cuts 6 - 9#	:	3.1900-3.3300

WEST

Cheese trading at the CME Group this week has been active with no clear direction being determined. Last week's trading closed higher, while most of the trading this week has been at lower prices. Barrels closed Wednesday at \$1.7300, up \$.0100. Blocks closed \$.0200 lower on Wednesday at \$1.6800. Barrels reversed course after losing \$.0650 the first two days of the week. Blocks are \$.0850 lower for the week. Sales activity has been moderate to good with eleven loads of barrels sold and nine loads of blocks changing hands. Western cheese prices are higher, but the overall market tone is unsettled. Cheese production remains mostly steady. Milk volumes are decreasing slightly, but milk solid values are increasing. Cheese yields are good with the increased solids. Buyers are still trying to determine the best time to make additional purchases as the prices fluctuate. Barrel prices that are above block prices are causing some uneasiness for process buyers. Export demand has slowed as international prices are competitive with U.S. prices.

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

Process 5# Loaf	:	1.8250-2.0825
Cheddar 40# Block	:	1.8625-2.2150
Cheddar 10# Cuts	:	2.0425-2.2625
Monterey Jack 10#	:	2.0525-2.2125
Grade A Swiss Cuts 6 - 9#	:	3.5100-3.9400

FOREIGN

The CME Group weekly average price for block cheese increased and moved domestic wholesale prices \$0.0125 higher. Prices for Swiss cuts held steady. Milk components are moving higher, resulting in improved yields for Swiss cheese makers. Movement of Swiss cheese remains fairly good for this time of year, despite recent Swiss cheese price increases. Inventory levels are holding steady ahead of yearend holiday orders.

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

VARIETY	NEW YORK	
	IMPORTED	DOMESTIC
Blue	: 2.6400-5.2200	: 2.1900-3.6775*
Gorgonzola	: 3.6900-6.3900	: 2.6925-2.9525*
Parmesan (Italy)	: -0-	: 3.3125-3.8675*
Provolone (Italy)	: 3.4400-6.3900	: 2.2325-2.3900*
Romano (Cows Milk)	: -0-	: 3.3800-5.5225*
Sardo Romano (Argentine)	: 2.8500-3.9800	: -0-
Reggianito (Argentine)	: 3.2900-4.2400	: -0-
Jarlsberg-(Brand)	: 2.9500-4.9900	: -0-
Swiss Cuts Switzerland	: -0-	: 4.0250-4.3475
Swiss Cuts Finnish	: 2.5900-2.8500	: -0-

* = Price change.

WEEKLY COLD STORAGE HOLDINGS - SELECTED STORAGE CENTERS
IN THOUSAND POUNDS - INCLUDING GOVERNMENT STOCKS

	BUTTER	CHEESE
10/10/11	7,209	131,234
10/01/11	7,919	135,392
CHANGE	-710	-4,158
% CHANGE	-9	-3

FLUID MILK AND CREAM

EAST

SPOT SHIPMENTS OF GRADE A MILK INTO OR OUT OF FLORIDA & SOUTHEASTERN STATES

	THIS WEEK		LAST WEEK		LAST YEAR	
	IN	OUT	IN	OUT	IN	OUT
FLORIDA	98	0	115	0	0	0
SOUTHEAST STATES	0	0	0	0	0	0

The lack of significant milk production increases combined with strong Class I pulls continue to limit manufacturing milk supplies in the Northeast and Mid-Atlantic regions. Most manufacturers' fluid milk supplies are in balance with their contract needs with any excess supplies rolled over to assist with meeting next week's condensed skim demand. Milk production in Florida has passed its seasonal low point and is showing some marginal increases as cows are now beginning to freshen and being added to the dairy herd. Cow comfort levels are improving as the daytime high temperatures have moderated. Class I demand remains strong and has necessitated 98 imported spot load shipments. The Southeast milk supply remains in a good balance. Some dryer shutdowns in the Western region are causing increased volumes of milk to be shipped to the Southeast. These increased milk volumes are being handled by auxiliary manufacturing plants. Class I demand continues to be good and at levels expected for this time of year. Cream supplies continue to be readily available with an uptick in demand as some cream cheese makers have expanded production. Multiples ranged from 122-132 with a majority of manufacturer's cream supply being channeled to churns. Demand continues to be good for condensed skim milk from Class II manufacturers and cheese makers. Most supplies are moving through contracts with limited supplies available for the spot market.

FLUID CREAM AND CONDENSED SKIM PRICES IN TANKLOT QUANTITIES

SPOT PRICES OF CLASS II CREAM, DOLLARS PER LB. BUTTERFAT:

F.O.B. producing plants: Northeast -	2.1515-2.3278
F.O.B. producing plants: Upper Midwest -	2.1515-2.2044

PRICES OF CONDENSED SKIM, DOLLARS PER LB. SOLIDS,

F.O.B. PRODUCING PLANTS:

Northeast - Class II - includes monthly formula prices -	1.59 - 1.63
Northeast - Class III - spot prices -	1.45 - 1.49

MIDWEST

Class I interest is steady to occasionally improved, aided by retail promotional activity, mainly on unflavored milk. Near month end, some chocolate milk promotions tied with Halloween may be used. As the holidays approach, at least a few operations are scheduling production of whipping cream and an early eggnog run. Most cream interest continues to center on churns and cream cheese accounts. A midweek increase in cream interest was noted to Class II accounts for one supplier. A couple ice cream operations had better orders resulting in heavier runs on certain items. Manufacturing milk interest depends on location and their product mix. Milk seems to be more readily available in Michigan, Indiana, and Ohio than in Wisconsin and possibly Minnesota. Perhaps much of the difference can be attributed to a large bottler, supplier shift on the eastern side of the region as previous supplier milk volumes are reallocated to other operations. Some manufacturers are still having problems securing needed milk supplies to fill orders. Milk intakes continue to edge lower seasonally in most northern states. A recent news article suggested some drought struck producers are leasing their cows to

producers in states not hit with the drought. A few reports suggest that pregnancy rates may have been reduced due to the hot summer weather. Milk components are inching upward toward the annual fall peak. The fall harvest is underway with some fall issues such as very dry conditions causing problems.

WEST

CALIFORNIA milk production is trending steady to slightly lower on a week-to-week basis. The declines are mainly attributed to changes in cow rations and the time in milk. Feed costs remain a big concern to producers, and those that do not have feed prices contracted are finding it hard to make money even at current good milk pricing levels. Processing plants are working well across the state. Handlers are stating there is a good mix between products in the utilization of milk. The October 2011 Class 1 prices in CALIFORNIA range from \$20.26 in the north to \$20.54 in the south. The statewide average Class 1 price based on production is \$20.28. The average is \$1.24 lower than September 2011 but \$1.82 more than October 2010. ARIZONA milk output is mostly steady with recent weeks. Weather conditions have moderated and cow comfort has improved. Processing plants are running on variable schedules planned around equipment and maintenance issues. Class I demand is steady. NEW MEXICO milk output is mostly steady on a week-to-week schedule with volumes higher than year ago levels. Class I needs are slightly lower. Milk is being shipped to local and regional buyers. Processing plants are running on reduced schedules. The CREAM market continues to be weak. Supplies are seasonally moderate to heavy. There is more activity developing for higher class products, some in preparation for the upcoming holiday seasonal needs. Butter churning remains active to process the available cream supplies. The trade is noting that some butter producers in other regions have a price cap on what they will pay for a delivered cream load. At the CME, the Grade AA butter price closed at \$1.8200 on Wednesday, October 12, up 6.25 cents from a week earlier. Western cream multiples are unchanged and range 106-122, and vary based on class usage and basing point. Weather conditions in the PACIFIC NORTHWEST are conducive to milk production and excellent cow comfort. Milk supplies are trending seasonally lower. Processors report no problems handling the current fluid milk supply within the region. Class I usage levels are along expected lines. Dairy farmers are busy with corn silage harvest and finishing the alfalfa harvest for the season. Supplies of alfalfa are tight in many cases and prices are reflecting the reduced crop. Replacement heifer prices at auction in Washington were reported as ranging \$1300-1500 for top heifers and fresh young cows ranged \$1400-1600. Milk production in UTAH and IDAHO is following expected levels. Dairy farmers are looking to purchase feed supplies for the upcoming winter. Hay supplies are tight and priced accordingly. Balancing feed costs with milk prices is causing some farmers to look for alternative feed sources. Milk supplies in the region are being handled comfortably. According to NASS, the October Crop Production report showed 2011 alfalfa supplies for the United States at 64.7 million tons, down 3.2 million tons or -4.7% from last year. 2011 production totals for selected Western states showed Arizona -321,000 tons, California +230,000, Colorado -82,000, Idaho -156,000, Nevada +89,000, New Mexico +52,000, Oregon -75,000, Utah +108,000, and Washington -378,000 tons. The net loss for these Western states was -533,000 tons.

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

NONFAT DRY MILK - CENTRAL AND EAST

CENTRAL: Nonfat dry milk prices in the Central region are unchanged on the high heat NDM price series but lower on the low heat NDM mostly series. The NDM market has struggled to gain some footing during the last three months. Some weekly price indices, such as the NASS NDM weekly average price, have not strung together successive weeks of average price increases during the last 12 announcements. Market participants reacted, in some cases, by delaying NDM purchases, hoping to enter the market nearer a price floor. But, from week to week, that price floor has not emerged. Some resellers report the uncertain market resulted in the resellers choosing to control NDM inventories and sell some NDM spot loads at prices that incorporate a discount to the weekly markets. Also, some brokers indicate their customers' purchasing patterns reflect the market uncertainty in other ways, with requests for LTL's and single loads sufficing where multiple loads were the norm during earlier purchases. Market participants speculate that until the NDM market exhibits successive weekly price increases, buyers may stick to their hand to mouth buying patterns. Nonfat dry milk production in the Central region is mostly steady. Regular farm milk intakes have resumed at several plants that were receiving milk from facilities undergoing maintenance, repairs, or equipment upgrades.

EAST: Prices for low heat nonfat dry milk moved lower, while high heat prices held steady. The combination of seasonal milk production declines and good demand from Class I, II, and III manufacturers are limiting nonfat dry milk production in the East. Eastern inventories continue to be tight with most supplies committed. Current production is focusing on contract commitments with little supply available for the spot market. Buyers continue to find success in securing additional loads at lower prices in the Central and Western regions. Demand for NDM remains flat as most buyers are keeping an eye on prices and limiting purchase amounts to current needs. Some brokers are reporting increased price inquiries for high heat nonfat dry milk from baking manufacturers, which gives a steady to firm undertone to the high heat market.

F.O.B. CENTRAL/EAST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUM HEAT: 1.4000 - 1.5900 MOSTLY: 1.4200 - 1.5600
 HIGH HEAT: 1.5800 - 1.7000

U.S. NDM Exports, H.S. Code 0402100000(FAS)

	2011 Exports (Million Lb.)	% Change From 1 Year Ago
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August Total	80.0	+ 1
TOTAL, JAN - AUG	642.7	+ 31
1 Mexico	244.4	+103
2 Vietnam	78.1	+ 67
3 Philippines	77.8	+ 3
4 Indonesia	72.8	+ 5
5 Malaysia	34.2	+ 10

NONFAT DRY MILK - WEST

Prices for Western low/medium heat nonfat dry milk continue to trade lower as producers discount powder to keep product moving and to remain competitive. There has also been a wide gap between

the plant prices and the resale market over recent weeks. The world skim milk powder market prices have also declined, and U.S. producers/sellers have seen the SMP and NDM market price gap widen. The overall result is that there is downward pressure on NDM prices. Trading volumes have slowed as registered on both a national and state indices, which historically have led to those pricing levels moderating. Western production schedules have been steady to lower. Part of the decline is milk and condensed skim moving out of a couple facilities with equipment/maintenance events. Powder stocks are moderate to occasionally heavy. Western high heat prices are lower in a wide trading range. The market tone is weaker. Buying interest is light beyond contracted volumes. Offerings are adequate for seasonal trade needs.

F.O.B. WEST: Includes EXTRA GRADE and GRADE A
 LOW/MEDIUM HEAT: 1.3900 - 1.5550 MOSTLY: 1.4200 - 1.4950
 HIGH HEAT: 1.4800 - 1.6600

DRY BUTTERMILK - CENTRAL AND EAST

CENTRAL: Central dry buttermilk prices moved both lower and higher on an unsettled market. Condensed buttermilk loads from the West are filling some supply gaps in the Central region for Class II end uses and dry buttermilk spot loads from Western manufacturers also cleared into the Central region at competitive prices. This week, several Central manufacturers are sending more uncommitted cream loads to the churn as current spot cream prices provide only modest incentives for those sales. Dry buttermilk being sent to warehousing is increasing along with the current butter/dry buttermilk production, but manufacturers indicate contract shipping of dry buttermilk is also increasing seasonally. So, for some manufacturers, the net gain in dry buttermilk holdings is negligible.

EAST: Dry buttermilk prices were mixed and widened the price range as the low end of the range moved lower and the high end moved higher. Product demand has increased marginally as some pancake mix manufacturers have expanded production. The increase in demand does not offset the increase in production as cream is readily available with increased volumes going to churns. Production increases are expanding inventories. Product is primarily moving through contracts with limited spot market activity. The increase in production combined with a lower nonfat dry milk market gives the dry buttermilk market a weak undertone.

F.O.B. CENTRAL/EAST: 1.2700 - 1.5000

DRY BUTTERMILK - WEST

Pricing levels for Western dry buttermilk are unchanged. The market tone continues to trend steady. Offerings and buyer interest have become more evenly balanced on the light side for each. Production levels are active and are matching butter churning schedules. Trading volumes have returned to more typical levels with producers in better stock positions.

F.O.B. WEST: 1.2300 - 1.3200 MOSTLY: 1.2600 - 1.2800

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

CONTINUED FROM PAGE 5

DRY WHOLE MILK - NATIONAL

The dry whole milk price series widened this week, with the top end of the range gaining 2 cents and the bottom of the range dropping by 1 cent. Production of dry whole milk is increasing at some facilities. Producers indicate that as spot cream prices trend lower, cream/butterfat used in whole milk production may provide a better return to operations than selling cream loads on the spot market. Domestic manufacturers indicate interest in dry whole milk from current customers is steady. Some other end users are emerging as possible buyers and taking steps to test samples of dry whole milk powder from domestic producers.

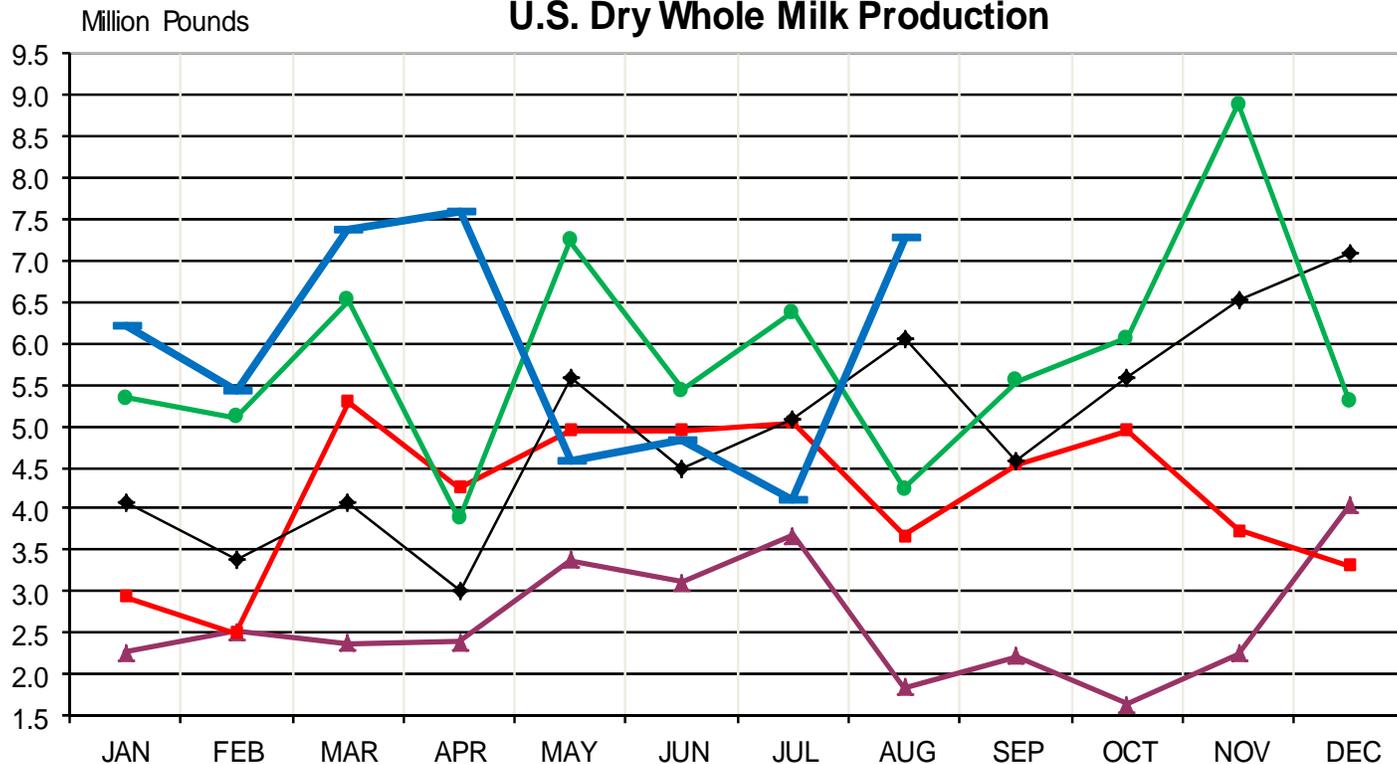
F.O.B. PRODUCING PLANT: 1.8400 - 2.0400

CALIFORNIA MANUFACTURING PLANTS - NDM

WEEK ENDING	PRICE	TOTAL SALES	SALES TO CCC
October 7	\$1.5291	9,978,302	0
September 30	\$1.5380	12,131,339	0

Prices are weighted averages for Extra Grade and Grade A Nonfat Dry Milk, f.o.b. California manufacturing plants. Prices for both periods were influenced by effects of long-term contract sales. Total sales (pounds) include sales to CCC. Compiled by Dairy Marketing Branch, California Department of Food and Agriculture.

U.S. Dry Whole Milk Production



Graph USDA, DMN; Source USDA, NASS

2007 2008 2009 2010 2011

WHEY, WPC 34%, LACTOSE & CASEIN

Prices represent carlot/trucklot quantities for domestic and export sales packaged in 25 kg. or 50 lb. bags, or totes, spray process, dollars per pound.

DRY WHEY - CENTRAL

Edible dry whey, Central, prices are unchanged to higher on a firm market. Some contacts mentioned the weakening dry whey prices in Europe, but it is expected that market could have more impact on the Western dry whey market than the Central market in the near term. Currently, dry whey demand is steady from all regular buyers. Spot load requests are common from both regular and new customers, but usually go unfulfilled. Manufacturers' dry whey inventories are light. Some delays in contract load shipping remain, with the gap between planned and actual date of ship neither growing nor decreasing. Dry whey production is increasing seasonally as cheese ordering, especially for pizza-type cheeses, increases. ANIMAL FEED DRY WHEY prices are higher on a firm market. Spot loads are intermittently available from some manufacturers, dependent on deviations occurring in the production of edible whey that render that product unsuited for human consumption. A few manufacturers indicate they cobble together loads over the course of several weeks and generally have buyers on waiting lists to purchase those loads. Animal feed blenders in the region indicate they are receiving contract loads of both edible and animal feed dry whey as scheduled.

F.O.B. CENTRAL: .5800 - .6250 MOSTLY: .5900 - .6200
F.O.B. CENTRAL: ANIMAL FEED MILK REPLACER: .4500 - .5900

DRY WHEY - NORTHEAST

Contract formulations and some spot market transactions combined to push dry whey prices to levels not seen since 2007. Supplies remain very tight with nearly all production moving through contracts. Product availability is primarily through re-sales with prices above the market range. Production of dry whey has increased marginally as condensed whey sales have all but disappeared with most manufacturers opting to make dry product for the higher prices. Demand remains good and the market undertone continues to be firm.

F.O.B. NORTHEAST: EXTRA GRADE AND GRADE A: .6150 - .6375

DRY WHEY - WEST

Western dry whey prices are higher on a mostly firm market. The market is showing some signs of weakness as buyers are noting year ago prices that were significantly lower. Domestic buyers are looking at increased demand while supplies remain tight. Manufacturers are balancing volumes to fill contract orders. Dry whey supplies are limited as producers share the whey stream with alternative whey products. Export sales are weaker as international prices are mostly lower than the current domestic market.

NONHYGROSCOPIC: .5900 - .6500 MOSTLY: .6250 - .6500

U.S. Dry Whey Exports, H.S. Code 0404104000(FAS)

	2011 Exports (Million Lb.)	% Change From 1 Year Ago
August Total	49.9	+ 30
TOTAL, JAN - AUG	364.4	- 2
1 China	74.4	+ 2
2 Mexico	47.8	+ 33
3 Canada	34.0	+ 9
4 Malaysia	32.0	+ 34
5 Indonesia	30.2	+ 47

WHEY PROTEIN CONCENTRATE - CENTRAL AND WEST

The top of the whey protein concentrate 34% mostly price series decreased by one cent, marking the third consecutive week of decreases for that series. The market tone is generally described as weak, reflecting the unsettled nature of the nonfat dry milk market, WPC 34%'s counterpart in dairy products with similar protein content. WPC 34% inventories are reportedly light for many manufacturers. A few manufacturers indicate recent, brief shutdowns put them behind schedule on filling contracts in the near term, with limited opportunities to catch up through the balance of the year. A few resellers are reportedly offering WPC 34% spot loads on a make-me-an-offer basis, hoping to clear some inventories while continuing to accept contract loads from their suppliers. WPC 34% production is higher for the week as some operations restart after brief, scheduled shutdowns.

F.O.B. EXTRA GRADE 34% PROTEIN:1.4000 - 1.5250 MOSTLY: 1.4200 - 1.4500

LACTOSE - CENTRAL AND WEST

The top of the lactose mostly price series gained 2 cents as fourth quarter contracts with variable pricing indices activated this week. The market tone is firm, but some resellers and end users voiced concerns that prices are hitting a level that encourages discussions about possible substitutions for lactose. Some buyers indicate they have decreased lactose orders in the near term. Interest from some European buyers, though, is undeterred by current domestic lactose prices, and they are actively seeking lactose supplies for the near term. Lactose production is unchanged to higher this week as some plants resumed production after completion of repairs and/or scheduled maintenance. Inventories are light.

Including spot sales and up to 3 month contracts.

F.O.B. EDIBLE, NON PHARMACEUTICAL .5575 - .8000 MOSTLY: .7200 - .7800

U.S. Lactose Exports, H.S. Code 1702110000(FAS)

	2011 Exports (Million Lb.)	% Change From 1 Year Ago
August Total	36.1	+ 5
TOTAL, JAN - AUG	296.3	+ 37
1 New Zealand	57.9	+ 341
2 China	49.4	+ 140
3 Mexico	34.8	+ 22
4 Japan	23.7	- 15
5 Brazil	14.2	- 20

CASEIN - NATIONAL

Pricing levels for both casein types are steady, after recent adjustments for quarterly price declines. The market tone is steady, yet unsettled. Casein production is active in Europe with current milk supplies moving towards casein output ahead of other powders. Offerings from Oceania are being made for the upcoming season. Casein needs are expected to be filled on a ready basis.

SPOT SALES AND UP TO 3 MONTH CONTRACTS. PRICES ARE F.O.B., U.S. WAREHOUSE FOR EDIBLE NONRESTRICTED AND VARY ACCORDING TO MESH SIZE AND QUALITY.

RENNET: 4.6000 - 5.0500
ACID: 4.9500 - 5.2000

CCC PURCHASES OF DAIRY PRODUCTS (POUNDS)

	FOR THE WEEK OF OCTOBER 10 - 14, 2011			CUMULATIVE TOTALS		UNCOMMITTED INVENTORIES	
	TOTAL PURCHASES	CONTRACT ADJUSTMENTS	ADJUSTED PURCHASES	SINCE 10/01/11	SAME PERIOD LAST YEAR	WEEK ENDING 10/07/11	SAME PERIOD LAST YEAR
BUTTER							
Bulk	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
CHEESE							
Block	-0-	-0-	-0-	-0-	-0-	-0-	-0-
Barrel	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-
NONFAT DRY MILK							
Nonfat	-0-	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-	-0-

SUPPORT PURCHASE PRICES FOR DAIRY PRODUCTS EFFECTIVE NOVEMBER 1, 2009

BUTTER Bulk \$1.05 per pound

CHEESE 40# Blocks \$1.13 per pound; 500# Barrels \$1.10

NONFAT DRY MILK \$.80 per pound

U.S. Dairy & Total Cow Slaughter under Federal Inspection, by Regions, for Week Ending 09/24/11 & Comparable Week 2010

Regions* (000 HEAD)											U.S. TOTAL		% DAIRY OF ALL	
	1	2	3	4	5	6	7	8	9	10	WEEK	SINCE JAN 1	WEEK	SINCE JAN 1
2011-Dairy	N.A.	0.7	9.6	3.5	21.5	3.3	N.A.	N.A.	15.3	2.8	58.7	2,154.3	39.7	44.4
2010-Dairy	N.A.	0.5	8.4	3.4	21.6	4.3	0.2	N.A.	14.5	2.8	57.3	2,068.5	44.7	44.0
2011-All cows	0.0	0.8	11.8	15.8	42.2	29.9	N.A.	N.A.	22.7	4.1	148.0	4,854.5		
2010-All cows	N.A.	0.7	10.6	14.8	36.7	24.1	11.7	N.A.	19.3	6.6	128.3	4,699.9		

SOURCE: The slaughter data are gathered and tabulated in a cooperative effort by the Agricultural Marketing Service, The Food Safety and Inspection Service, and the National Agricultural Statistics Service, all of USDA.

CLASS III MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007	13.56	14.18	15.09	16.09	17.60	20.17	21.38	19.83	20.07	18.70	19.22	20.60
2008	19.32	17.03	18.00	16.76	18.18	20.25	18.24	17.32	16.28	17.06	15.51	15.28
2009	10.78	9.31	10.44	10.78	9.84	9.97	9.97	11.20	12.11	12.82	14.08	14.98
2010	14.50	14.28	12.78	12.92	13.38	13.62	13.74	15.18	16.26	16.94	15.44	13.83

CLASS IV MILK PRICES, (3.5% BF)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
2007	12.53	12.71	13.71	16.12	18.48	20.76	21.64	21.87	21.61	21.31	20.40	19.18
2008	16.29	14.67	14.17	14.56	15.26	15.92	16.60	16.64	15.45	13.62	12.25	10.35
2009	9.59	9.45	9.64	9.82	10.14	10.22	10.15	10.38	11.15	11.86	13.25	15.01
2010	13.85	12.90	12.92	13.73	15.29	15.45	15.75	15.61	16.76	17.15	16.68	15.03

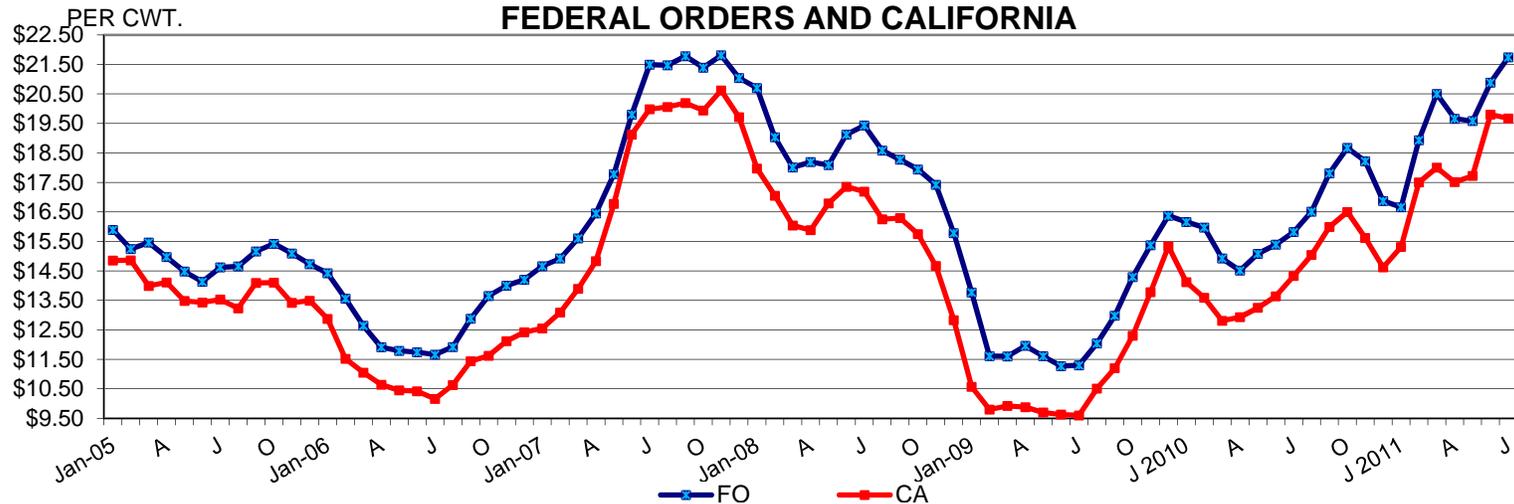
FEDERAL MILK ORDER CLASS PRICES FOR 2011 (3.5% BF)

CLASS	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
I 1/	15.20	15.89	18.23	19.43	19.75	20.32	21.03	21.43	21.78	19.56		
II	16.79	17.97	18.83	19.66	20.63	21.37	21.29	21.55	20.55			
III	13.48	17.00	19.40	16.87	16.52	19.11	21.39	21.67	19.07			
IV	16.42	18.40	19.41	19.78	20.29	21.05	20.33	20.14	19.53			

1/ Specific order differentials to be added to this base price can be found by going to:

www.ams.usda.gov/DairyMarketingStatistics; then select "Prices"; and then select "Principal Pricing Points." \$ Revised

MONTHLY MAILBOX PRICE AVERAGE FOR FEDERAL ORDERS AND CALIFORNIA



INTERNATIONAL DAIRY MARKET NEWS - EUROPE

Information gathered October 2 - 15 , 2011

Prices are U.S. \$/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 AND EASTERN EUROPE

WESTERN OVERVIEW: The seasonal milk production trend lower for Western European countries continues to develop. Weather conditions have been favorable for farm level milk output. Some countries are receiving rains and cooler conditions, which are beginning to moderate output. Production gains over year ago are more modest than has been the case. Gains over year ago are more prevalent in France, Austria, and Ireland, noted from trade reports. Milk prices remain favorable for producers. There is discussion about countries being over quota, what penalties could occur, and whether the milk price returns would best any penalty costs. Dairy product prices and export options are being affected by currency fluctuations making European prices more expensive to buyers. Butter and butteroil prices remain above other world prices and are limiting exports. Demand is good for local accounts. Skim milk powder prices are competitive, but demand is light into export markets. Whole milk powder pricing levels are mixed and remain higher than the Oceania region. Dry whole whey prices are steady but priced competitively into export channels. There are opportunities to take whey market share away from other exporting countries.

BUTTER/BUTTEROIL: European butter prices are slightly lower and often lightly tested. Export interest remains slow for butter at current pricing levels. Local and regional internal demand is fair. Current production trends are following projected levels. Cream volumes are available for churning needs. Butteroil export interest remains very light. European pricing levels are too high to be competitive with AMF on the world market, especially with AMF prices being below butter prices in some markets.

82% BUTTERFAT: 5,350 - 5,650
99% BUTTERFAT: 6,000 - 6,300

SKIM MILK POWDER (SMP): European skim milk powder prices are mostly steady with the most recent reporting period. Current pricing levels have the region poised to remain competitive with other exporting countries, but export demand is lighter than expectations. Currency fluctuations are also affecting potential exports. SMP output continues to trend lower on a seasonal basis. Stock holdings are light to moderate and offerings are available from most sources in the region.

1.25% BUTTERFAT: 3,125 - 3,350

WHOLE MILK POWDER (WMP): European whole milk powder prices are mixed. The market tone is unsettled. Currency fluctuations have made local prices more expensive into international markets. Export market interest has slowed further with European pricing remaining higher than the lower trends in the Oceania region. European WMP supplies are serving local/regional needs and moving to established trading partners. Drying levels are variable for WMP with some producers putting up additional volumes of cheese instead of powders. Holdings are available for current and future needs.

26% BUTTERFAT: 3,800 - 4,200

SWEET WHEY POWDER: European sweet whey powder prices are steady to lower. The market tone is unsettled. At current pricing levels, European whey is moving well into international export channels and is taking market share from higher priced regions. The increasing Euro has helped hold market pricing levels. Cheese production remains active, leading to steady dry whey output. Holdings are available to meet local and export needs.

NONHYGROSCOPIC: 1,125 - 1,300

EASTERN OVERVIEW: Eastern Europe milk production trends are continuing to show seasonal declines in total output. Milk volumes entering processing plants are lower, yet processors are manufacturing a wide variety of products for local and international marketing. Trading activity into international channels continues to trend lower, mostly due to the relatively high prices compared to other regions. Currency valuations have also made export prices more expensive to world customers.

Exchange rates for selected foreign currencies: October 10, 2011

.9741 Canadian Dollar	.0205 Indian Rupee
.2370 Argentina Peso	.7839 New Zealand Dollar
.0755 Mexican Peso	.9990 Australian Dollar
.3166 Polish Zloty	.0130 Japanese Yen
	1.3644 Euro

To compare the value of 1 US Dollar to Mexican Pesos: (1/.0755) = 13.2450 Mexican Pesos. Source: "Wall Street Journal"

Information gathered October 2 - 15, 2011

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OCEANIA

OVERVIEW: The milk production season is off to a great start across the region. News accounts are reporting NEW ZEALAND milk intakes at up to 13% above year ago levels and further note that milk procurement schedules are tight in getting the milk off the farms. Favorable winter weather conditions and good springtime conditions have created a platform for good milk producing conditions. Pasture growth has been good and providing good feed for cows. A factor in the big percentage changes is that at this time last year, the season was off to a poor start. Yearly milk output estimates are being adjusted slightly higher. Milk pricing levels are being held steady. AUSTRALIAN milk production is trending upwards. Early season growth levels are reported at 1-4% higher overall than a year ago. Best localized milk gains are currently noted in the Tasmanian and Northern Victorian regions. The percentages are variable and dependent on the region. Water conditions are good heading into the growing season and volumes are projected to be adequate for needs. Pasture growth is good and conditions are greening. Processing plants are operating well to handle the milk supplies. Dairy product prices are best described as "drifting" in early season trading. Competition from U.S. and EU dairy products, weaker Euro values, and slower international demand are all impacting the Oceania region. Supplies are building as the milk production season builds. Processing plants are running on heavy schedules to handle the growing milk supplies. There are a wide array of products being made, typical for the early season. At the g/DT event on October 4, dairy product pricing results were mixed. For contract #2 (December 2011), prices and changes from the previous session are: anhydrous milk fat, \$3,674/MT, -1.9%; butter-milk powder, \$2,985, +1.7%; skim milk powder, \$3,178, N.C.; whole milk powder, \$3,263, -0.6%; milk protein concentrate \$6,815, -1.5%; rennet casein \$8,016, -8.1%; and cheese \$3,833, -3.5%.

BUTTER: Oceania butter prices are trending lower. The market tone is stagnant to lower, with declining AMF pricing levels and weaker butter prices influencing the trade sentiment. Butter production is trending seasonally higher as the milk flow builds. Export interest is slow to gain momentum. Domestic demand is fair to good in Australia. Holdings are adequate to good. At the October 4 g/DT event, anhydrous milk averaged \$3,703 per MT, -3.5% compared to the previous event all contract average. For the most recent event, contract #1 (November) had no activity, Contract 2 (December 2011) \$3,674 per MT, -1.9% compared to the previous contract #2 average; Contract #3 (January - March) averaged \$3,686, -4.8%; and contract #4 (April - June) averaged \$4,486, -2.0%.

82% BUTTERFAT:

3,600 - 4,500

SKIM MILK POWDER (SMP): Oceania skim milk powder prices are drifting lower. The market sentiment is trending weaker. Demand levels are generally to established accounts with new interest slow to develop. Export competition with EU powders continues and the declining Euro is making those prices more favorable to international buyers. Early season production levels in the Oceania region are moderate to active in the manufacture of SMP. Holdings are available to service accounts. At the October 4 g/DT event, skim milk powder averaged \$3,193 per MT, 0.3% lower than the previous all contract average. Specific contract averages and their percentage change from the previous event are: Contract #1 (November) \$3,047, N.A.; Contract #2 (December) \$3,178, N.C.; Contract #3 (January - March) \$3,208, -1.1%; and Contract #4 (April - June) \$3,412, +0.7%.

1.25% BUTTERFAT:

3,175 - 3,500

WHOLE MILK POWDER (WMP): Oceania whole milk powder prices are trending lower in light to moderate trading activity. Export interest ranges from slow to fair for the current supply. The weaker pricing trend has kept some export buyers on the sidelines with purchase volumes below expectations. WMP drying schedules are trending higher as early season, milk output levels are above a year ago. WMP supplies are building to service current and future account needs. At the October 4 g/DT event, whole milk powder averaged \$3,309 per MT, -0.7% from the previous all contract average. Specific contract averages and their percentage change from the previous event are: Contract #1 (November) N.A., N.A.; Contract #2 (December) \$3,263, -0.6%; Contract #3 (January - March) \$3,301, -1.4%; and Contract #4 (April - June) \$3,562, +1.4%.

26% BUTTERFAT:

3,250 - 3,600

CHEDDAR CHEESE: Oceania cheddar cheese pricing levels are declining. The market tone is trending softer with sellers finding that maintaining pricing levels is harder to accomplish. Demand is fair to established account with most cheese made for orders on the books. Some export areas are slower to develop due to pricing levels and cheese age. Production schedules are steady to slightly higher and along projected volumes. At the October 4 g/DT event, cheddar cheese averaged \$3,800 per MT, -4.9%, for all contracts when compared to the previous all contract average. The nearest term contract (December) price averaged \$3,833, -3.5% from the previous December contract. Contract 3 (April - June) traded at \$3,767, -6.3% from the previous contract average.

39% MAXIMUM MOISTURE:

3,825 - 4,550

INTERNATIONAL DAIRY MARKET NEWS - OCEANIA

Information gathered October 2 - 15, 2011

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OCTOBER 4, 2011 Global/Dairy Trading (g/DT) event 53 recap US \$ per metric ton										
Average prices and Changes in price Indices from Previous event	Contract #1		Contract #2		Contract #3		Contract #4		All Contracts	
	November 2011		December 2011		January - March 2012		April - June 2012			
Anhydrous Milk Fat	N.A.	N.A.	\$3,674	-1.9%	\$3,686	-4.8%	\$4,486	-2.0%	\$3,703	-3.5%
Buttermilk Powder	N.A.	N.A.	\$2,985	+1.7%	\$3,335	+7.1%	N.A.	N.A.	\$3,075	+3.2%
Skim Milk Powder	\$3,047	N.A.	\$3,178	N.C.	\$3,208	-1.1%	\$3,412	+0.7%	\$3,193	-0.3%
Whole Milk Powder	N.A.	N.A.	\$3,263	-0.6%	\$3,301	-1.4%	\$3,562	+1.4%	\$3,309	-0.7%
Milk Protein Concentrate	N.A.	N.A.	\$6,815	-1.5%	\$6,610	+2.8%	N.A.	N.A.	\$6,713	+0.5%
Rennet Casein	N.A.	N.A.	\$8,016	-8.1%	\$8,339	-6.4%	N.A.	N.A.	\$8,181	-7.2%
Cheese	N.A.	N.A.	\$3,833	-3.5%	\$3,767	-6.3%	N.A.	N.A.	\$3,800	-4.9%

CHICAGO MERCANTILE EXCHANGE FUTURES

Selected settling prices, (open interest), and volume ^{1/}

Month	09/29	09/30	10/03	10/04	10/05	10/06	10/07	10/10	10/11	10/12
CME - CLASS III MILK FUTURES (Pit-Traded)										
SEP 11	19.00 (6152) 0	19.07 (5905) 0								
OCT 11	17.64 (5505) 0	17.44 (5481) 0	17.40 (5435) 0	17.65 (5416) 0	17.82 (5336) 0	17.92 (5263) 0	18.03 (5274) 0	17.92 (5234) 0	17.92 (5207) 0	17.90 (5174) 0
NOV 11	16.98 (5125) 0	16.41 (5279) 0	16.18 (5422) 0	16.72 (5410) 2	17.07 (5387) 0	17.21 (5256) 0	17.87 (5200) 2	17.19 (5238) 0	17.10 (5249) 0	16.97 (5288) 0
DEC 11	16.88 (4784) 0	16.35 (4869) 0	16.20 (4880) 0	16.46 (4858) 0	16.53 (4868) 0	16.62 (4741) 0	16.92 (4660) 0	16.28 (4641) 0	16.40 (4696) 0	16.45 (4680) 0
JAN 12	16.68 (2168) 2	16.35 (2207) 0	16.12 (2223) 14	16.17 (2241) 14	16.25 (2227) 1	16.23 (2218) 0	16.44 (2231) 4	16.20 (2259) 4	16.26 (2248) 0	16.31 (2268) 0
FEB 12	16.50 (1854) 2	16.20 (1894) 0	16.00 (1919) 14	16.00 (1935) 14	16.14 (1907) 1	16.07 (1927) 0	16.15 (1939) 4	16.05 (1955) 4	16.20 (1978) 0	16.25 (1988) 0
MAR 12	16.56 (1739) 7	16.30 (1761) 0	16.05 (1798) 14	16.02 (1790) 16	16.03 (1787) 1	16.06 (1788) 0	16.08 (1797) 4	16.02 (1796) 4	16.23 (1805) 0	16.22 (1812) 0
APR 12	16.35 (1417) 6	16.20 (1427) 0	16.07 (1449) 5	16.10 (1460) 18	16.10 (1442) 1	16.10 (1441) 0	16.13 (1447) 29	16.12 (1440) 6	16.28 (1453) 0	16.28 (1453) 0
MAY 12	16.46 (1346) 5	16.34 (1355) 0	16.20 (1369) 5	16.19 (1374) 14	16.12 (1358) 5	16.11 (1364) 0	16.16 (1370) 29	16.12 (1370) 6	16.24 (1374) 0	16.23 (1391) 0
JUN 12	16.68 (1322) 5	16.59 (1332) 1	16.43 (1351) 5	16.48 (1376) 18	16.46 (1359) 1	16.44 (1361) 0	16.55 (1374) 29	16.42 (1372) 6	16.53 (1378) 0	16.49 (1392) 0
CME - CLASS IV MILK FUTURES (Pit-Traded)										
SEP 11	19.65 (707) 0	19.53 (710) 0								
OCT 11	18.25 (610) 0	18.25 (610) 0	18.25 (610) 0	18.25 (610) 0	18.25 (610) 0	18.25 (610) 0	18.25 (610) 0	18.25 (610) 0	18.25 (610) 0	18.25 (610) 0
NOV 11	17.50 (497) 0	17.50 (497) 0	17.50 (497) 0	17.45 (498) 0	17.35 (498) 0	17.35 (498) 0	17.75 (498) 0	17.75 (498) 0	18.00 (498) 0	18.01 (496) 0
CME - CASH SETTLED BUTTER FUTURES (Electronic-Traded)										
SEP 11	199.00 (825) 0	198.86 (825) 0								
OCT 11	178.00 (736) 6	178.50 (742) 6	178.50 (742) 0	178.50 (742) 0	176.75 (747) 5	176.75 (769) 22	177.25 (786) 17	177.25 (786) 0	177.25 (786) 0	177.25 (786) 0
NOV 11	174.98 (803) 5	174.50 (804) 3	174.25 (814) 10	174.28 (818) 4	172.00 (848) 32	174.00 (849) 1	177.25 (852) 12	178.50 (852) 0	181.00 (857) 35	182.00 (854) 8
CME - NONFAT DRY MILK FUTURES (Pit-Traded)										
SEP 11	153.00 (328) 0	154.39 (328) 0								
OCT 11	148.50 (328) 0	148.50 (328) 0	147.00 (329) 0	147.00 (329) 0	148.00 (329) 0	148.00 (329) 0	149.03 (329) 0	149.03 (329) 0	149.03 (329) 0	148.00 (329) 0
NOV 11	143.98 (203) 0	145.50 (205) 0	143.00 (209) 0	141.95 (210) 0	142.95 (211) 0	143.98 (212) 0	145.50 (213) 0	145.00 (215) 0	145.00 (219) 0	144.00 (219) 0
CME - WHEY (Electronic-Traded)										
SEP 11	59.00 (248) 0	59.26 (248) 0								
OCT 11	59.05 (351) 3	59.75 (353) 15	59.60 (356) 3	60.00 (352) 4	60.20 (352) 1	60.75 (330) 23	61.50 (329) 4	61.50 (329) 0	61.00 (328) 1	61.00 (328) 0
NOV 11	55.75 (376) 17	56.48 (390) 17	55.30 (405) 18	56.00 (419) 23	57.00 (419) 9	58.50 (411) 20	59.50 (414) 11	59.50 (414) 0	59.90 (415) 3	59.50 (415) 0
CME - CHEESE CSC (Electronic-Traded)										
SEP 11	1.85 (354) 0	1.86 (331) 0								
OCT 11	1.71 (549) 10	1.70 (549) 0	1.70 (549) 0	1.71 (546) 4	1.73 (546) 0	1.73 (546) 0	1.74 (546) 0	1.74 (546) 0	1.75 (547) 3	1.74 (547) 0
NOV 11	1.68 (800) 46	1.62 (846) 82	1.60 (922) 81	1.66 (942) 53	1.69 (946) 8	1.69 (947) 2	1.74 (947) 0	1.68 (954) 7	1.67 (957) 5	1.66 (959) 2
DEC 11	1.69 (923) 41	1.63 (977) 54	1.62 (1019) 43	1.64 (1013) 12	1.66 (1017) 13	1.65 (1019) 21	1.67 (1022) 8	1.60 (1040) 24	1.62 (1086) 48	1.62 (1090) 12
JAN 12	1.70 (351) 15	1.66 (368) 33	1.64 (401) 34	1.65 (415) 17	1.66 (419) 7	1.64 (433) 39	1.66 (442) 13	1.63 (485) 46	1.64 (507) 25	1.64 (515) 9
FEB 12	1.70 (310) 46	1.66 (325) 17	1.64 (336) 11	1.65 (340) 5	1.66 (344) 5	1.66 (354) 19	1.65 (362) 12	1.64 (383) 21	1.66 (406) 24	1.65 (411) 5

^{1/} At the CME open interest for milk -- 200,000 pounds per contract. For more detailed information, you may call our automated voice system at 608-278-4142.

OCTOBER MILK SUPPLY AND DEMAND ESTIMATES

The milk production forecast for 2011 is raised as the dairy herd has been expanding at a more rapid rate and milk per cow during the summer increased more rapidly than expected. However, the forecast for 2012 is reduced as forecast lower milk prices and weakening milk-feed ratios increase the pace of later year declines in cow numbers. Fat basis exports are lowered for 2011 on slightly weaker butter and cheese exports, but are unchanged for 2012. Skim solids exports are unchanged for 2011 but are lowered for 2012. Import forecasts are unchanged. Butter and cheese prices for 2011 are forecast lower, but the nonfat dry milk (NDM) price forecast is unchanged and whey prices are forecast higher. International prices have been weaker which has put some pressure on butter and cheese prices. Butter and cheese price forecasts are also reduced for 2012. NDM prices have also been under pressure from weakening international prices and although the forecast for 2011 is unchanged from last month, the price forecast for 2012 is reduced. Whey prices are raised for both 2011 and 2012 as demand is strong. The Class III price is lowered for 2011, but for 2012 the higher whey price more than offsets a decline in the cheese price, and the Class III price forecast is raised. The Class IV price is lowered for both years due to lower forecast butter and NDM prices. The all milk price forecast is lowered to \$20.00 to \$20.10 per cwt. for 2011, and \$17.75 to \$18.65 per cwt. for 2012.

U.S. MILK SUPPLY AND USE					
Commodity	2010	2011 Projected		2012 Projected	
		September	October	September	October
BILLION POUNDS					
MILK					
PRODUCTION	192.8	195.7	195.9	198.5	198.4
FARM USE	1.0	1.0	1.0	1.0	1.0
FAT BASIS SUPPLY					
BEGINNING COMMERCIAL STOCKS	11.3	10.9	10.9	11.4	11.4
MARKETINGS	191.8	194.8	195.0	197.6	197.5
IMPORTS	4.1	3.2	3.2	3.2	3.2
TOTAL COMMERCIAL SUPPLY	207.2	208.8	209.1	212.2	212.1
FAT BASIS USE					
COMMERCIAL EXPORTS	8.3	9.2	9.1	8.6	8.6
ENDING COMMERCIAL STOCKS	10.9	11.4	11.4	11.5	11.5
CCC NET REMOVALS <u>1/</u>	0.2	0.0	0.0	0.0	0.0
COMMERCIAL USE <u>2/</u>	187.8	188.2	188.6	192.0	192.0
SKIM-SOLIDS BASIS SUPPLY					
BEGINNING COMMERCIAL STOCKS	11.3	12.3	12.3	12.2	12.2
MARKETINGS	191.8	194.8	195.0	197.6	197.5
IMPORTS	4.8	5.3	5.3	5.1	5.1
TOTAL COMMERCIAL SUPPLY	208.0	212.3	212.5	214.9	214.8
SKIM-SOLIDS BASIS USE					
COMMERCIAL EXPORTS	32.1	32.6	32.6	32.3	31.9
ENDING COMMERCIAL STOCKS	12.3	12.2	12.2	12.0	12.1
CCC NET REMOVALS <u>1/</u>	0.0	0.0	0.0	0.0	0.0
COMMERCIAL USE <u>2/</u>	164.0	167.5	167.7	170.6	170.8
MILLION POUNDS					
CCC PRODUCT NET REMOVALS <u>1/</u>					
BUTTER	8	0	0	0	0
CHEESE	0	0	0	0	0
NONFAT DRY MILK	0	0	0	0	0
DRY WHOLE MILK	0	0	0	0	0

NOTE: Totals may not add due to rounding. 1/ Includes products exported under the Dairy Export Incentive Program.

2/ Includes commercial exports.

OCTOBER MILK SUPPLY AND DEMAND ESTIMATES-cont'd

U.S. DAIRY PRICES					
Commodity	2010	2011 Projected		2012 Projected	
		September	October	September	October
DOLLARS PER POUND					
PRODUCT PRICES <u>1/</u>					
CHEESE	1.5226	1.825-1.845	1.810-1.820	1.670-1.770	1.665-1.755
BUTTER	1.7020	1.955-1.995	1.940-1.970	1.615-1.745	1.600-1.720
NONFAT DRY MILK	1.1687	1.505-1.525	1.505-1.525	1.375-1.445	1.355-1.425
DRY WHEY	0.3716	0.505-0.525	0.515-0.525	0.415-0.445	0.455-0.485
DOLLARS PER CWT					
MILK PRICES <u>2/</u>					
CLASS III	14.41	18.25-18.45	18.15-18.25	16.10-17.10	16.30-17.20
CLASS IV	15.09	19.05-19.35	19.05-19.25	16.50-17.60	16.30-17.30
ALL MILK <u>3/</u>	16.29	20.15-20.35	20.00-20.10	17.80-18.80	17.75-18.65
QUARTERLY					
	2011 III	2011 IV <u>4/</u>	2012 I <u>4/</u>	2012 II <u>4/</u>	2012 III <u>4/</u>
BILLION POUNDS					
MILK PRODUCTION	48.7	48.3	49.7	51.0	49.0
DOLLARS PER CWT.					
ALL MILK PRICE <u>2/</u> <u>3/</u>	21.60	19.60-20.00	18.30-19.00	17.15-18.15	17.40-18.40
CLASS III PRICE <u>2/</u>	20.71	17.85-18.25	16.50-17.20	15.55-16.55	16.50-17.50
CLASS IV PRICE <u>2/</u>	20.00	17.85-18.35	16.55-17.35	16.20-17.30	16.35-17.45

1/ Simple average of monthly prices calculated by AMS from NASS weekly average dairy product prices for class price computations. Details may be found by going to <http://www.ams.usda.gov/DairyMarketStatistics>; then select "Prices;" then select "Description." 2/ Annual and quarterly Class III and Class IV prices are the simple average of monthly minimum Federal order milk prices paid by regulated plants for milk used in the respective classes. All milk price is the simple average of monthly prices received by farmers for milk at average test. 3/ Does not reflect any deductions from producers as authorized by legislation. 4/ Projection.

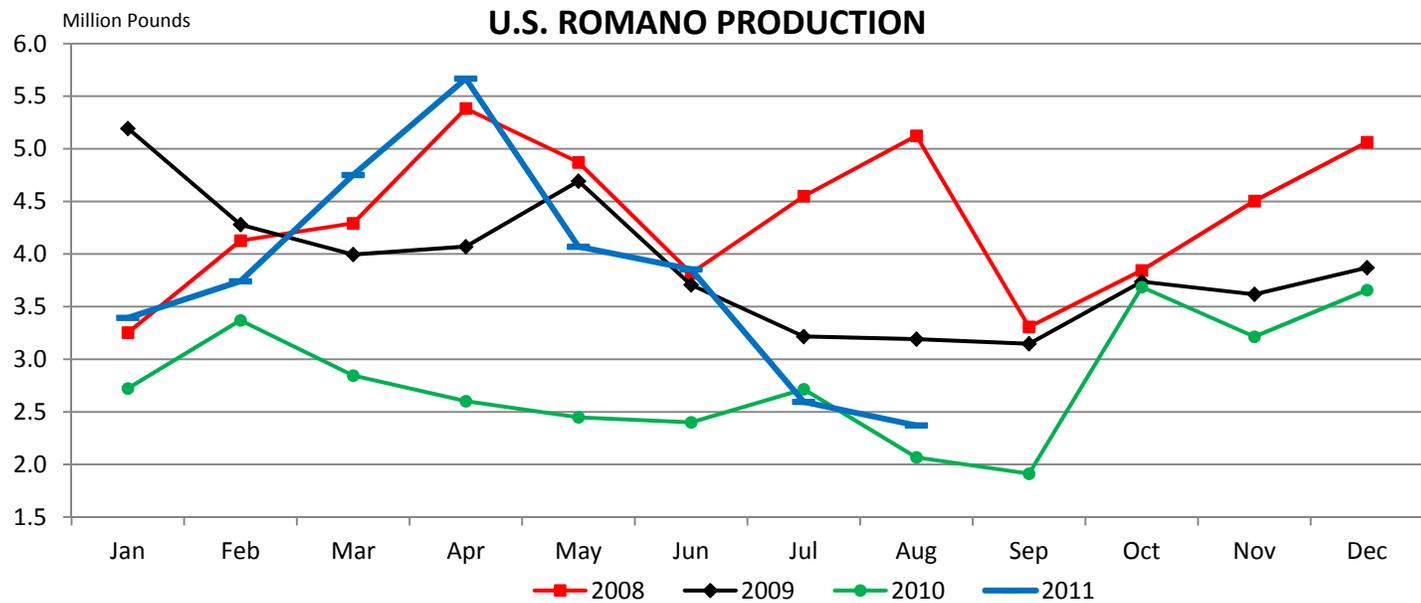
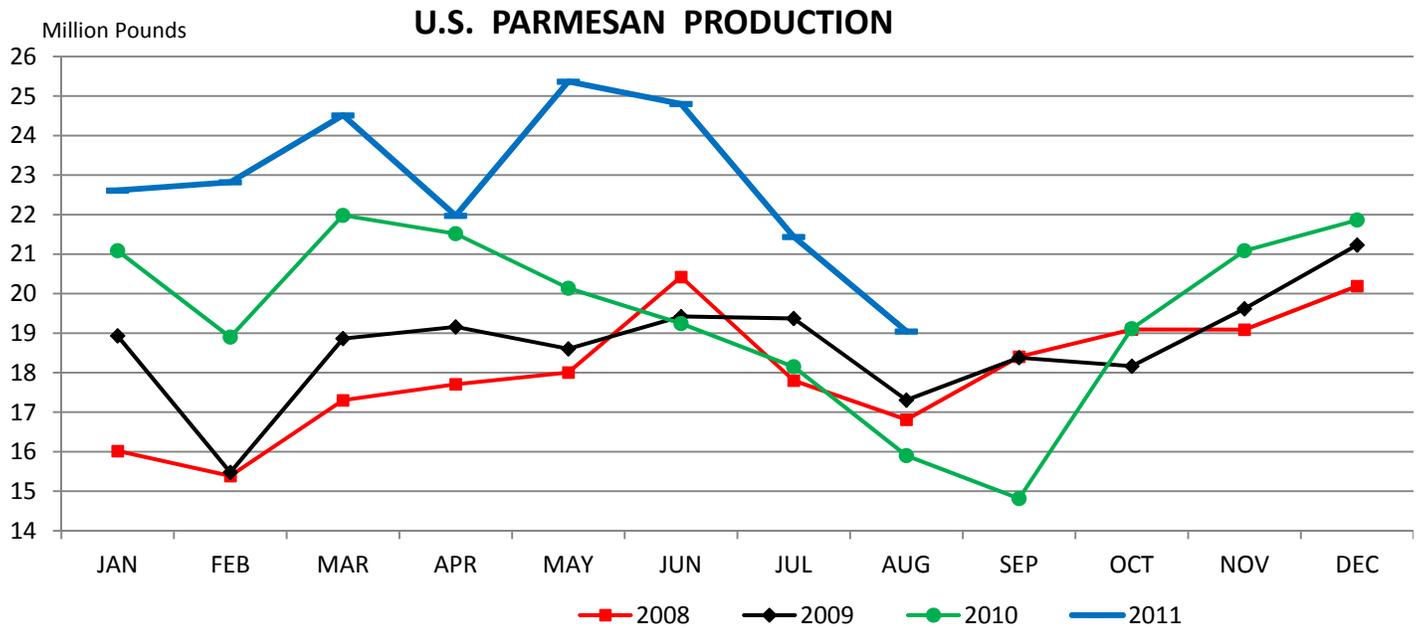
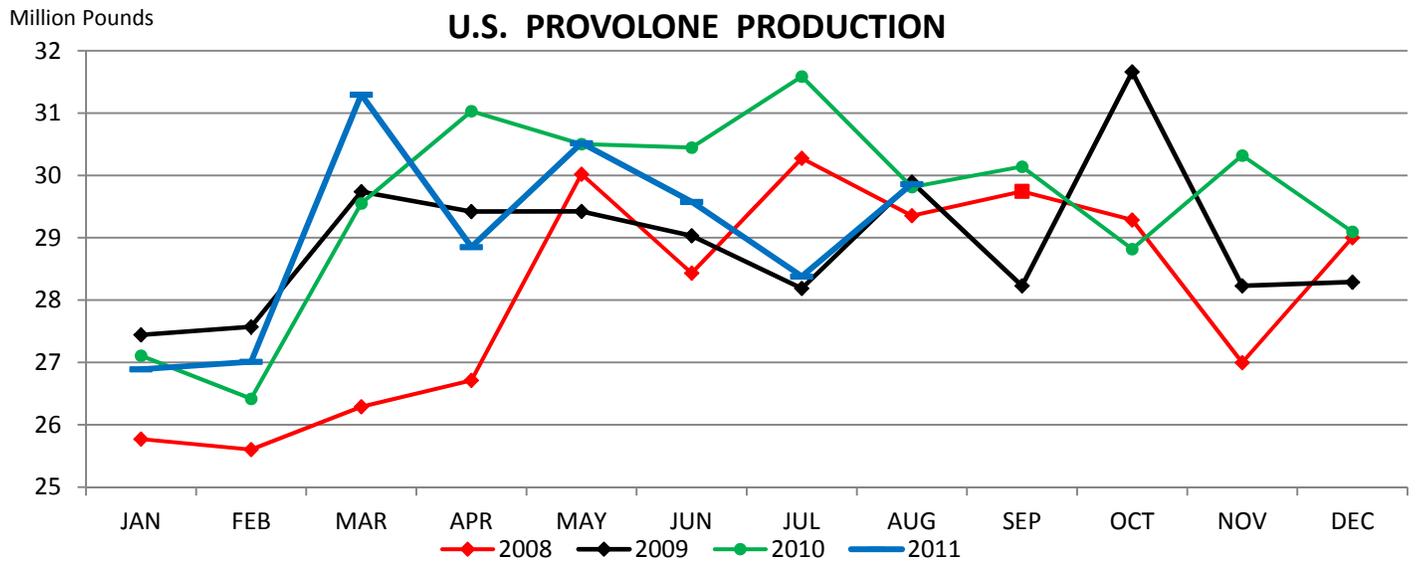
Source: U.S. Department of Agriculture. World Agricultural Outlook Board. *World Agricultural Supply and Demand Estimates, WASDE-499, October 12, 2011.* Approved by the Interagency Commodity Estimates Committee [members for Dairy are: Shayle Shagam, Chairperson, WAOB; Jerry Cessna, AMS; Paul Kiendl, FAS; Roger Hoskin, ERS; and Milton Madison, FSA].

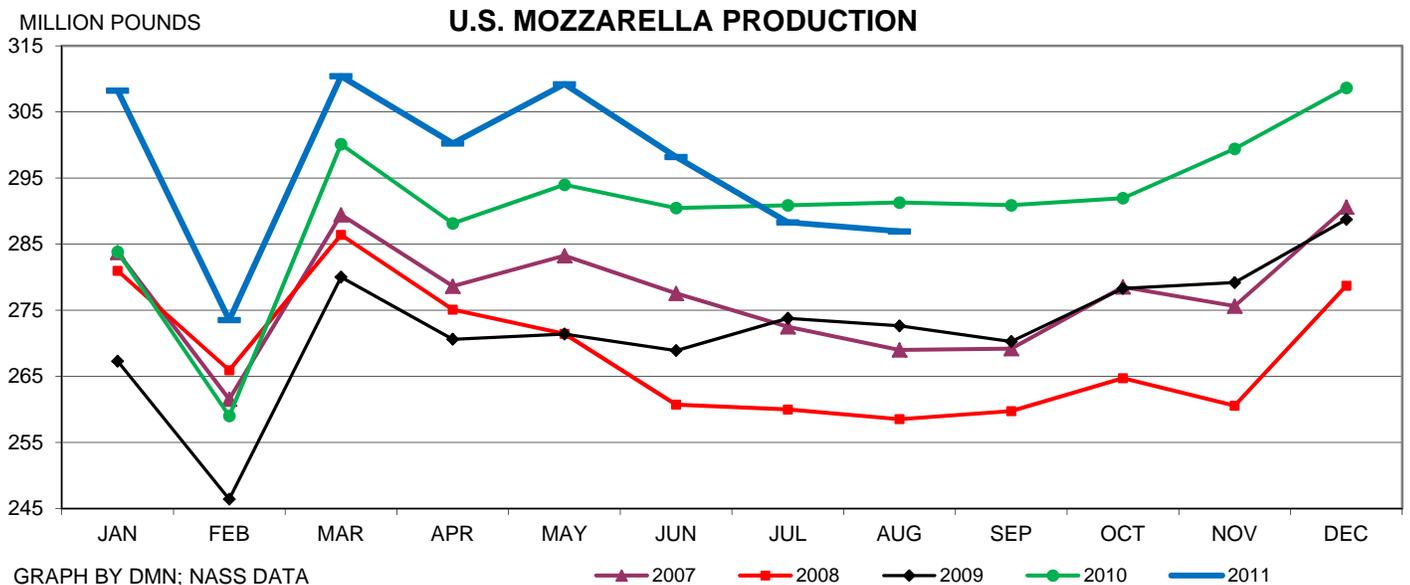
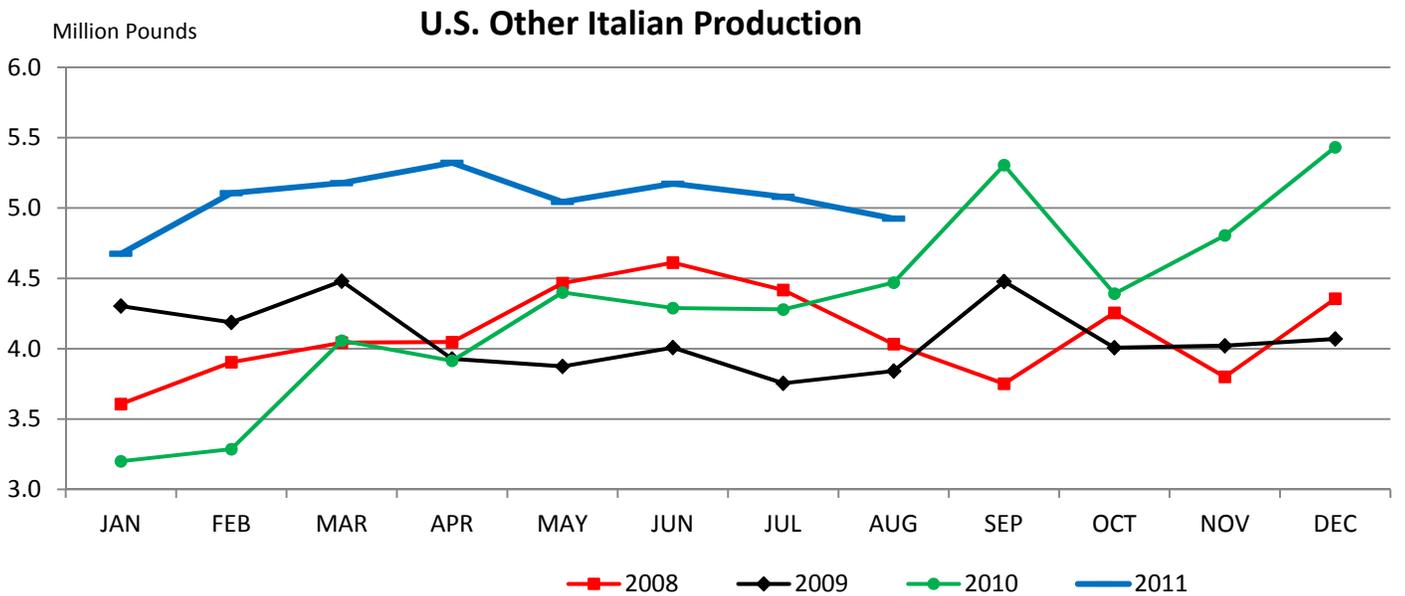
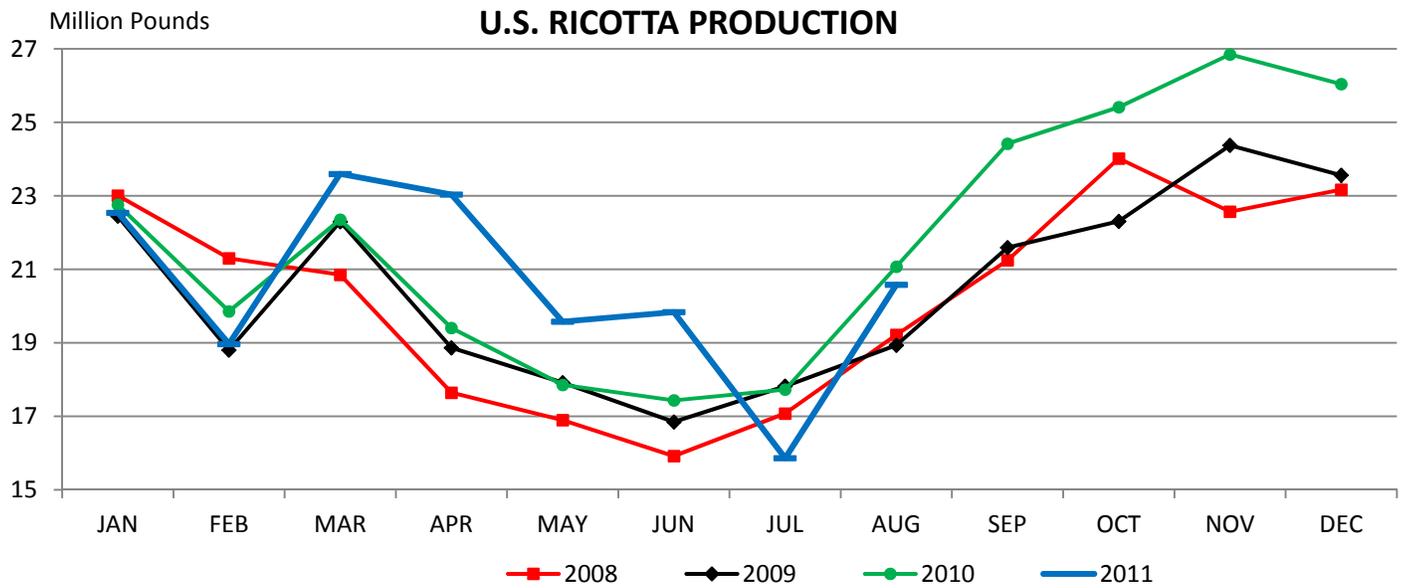
MAILBOX MILK PRICES FOR SELECTED REPORTING AREAS IN FEDERAL MILK ORDERS AND CALIFORNIA, JULY 2011, WITH COMPARISONS

In July 2011, mailbox milk prices for selected reporting areas in Federal milk orders averaged \$21.74 per cwt., up \$0.86 from the previous month average, and up \$5.92 from July 2010. The component tests of producer milk in July 2011 were: butterfat, 3.56%; protein, 2.95%; and other solids, 5.72%. On an individual reporting area basis, mailbox prices increased from the previous month in all Federal milk order reporting areas. Mailbox prices in July 2011 ranged from \$24.50 in Florida to \$19.97 in New Mexico.

Reporting Area <u>1/</u>	Mailbox Milk Price <u>2/</u>		
	July 2010	June 2011	July 2011
	Dollars per hundredweight		
New England States <u>3/</u>	17.33	22.33	22.77
New York	16.18	20.88	21.41
Eastern Pennsylvania <u>4/</u>	16.85	21.66	22.16
Appalachian States <u>5/</u>	18.25	22.58	22.82
Southeast States <u>6/</u>	18.65	23.06	23.44
Southern Missouri <u>7/</u>	16.39	20.88	21.26
Florida	19.67	23.98	24.50
Western Pennsylvania <u>8/</u>	16.68	21.53	22.26
Ohio	16.72	21.28	22.13
Indiana	16.80	21.16	21.58
Michigan	15.93	20.78	21.30
Wisconsin	14.97	20.41	21.86
Minnesota	15.00	20.65	21.83
Iowa	15.93	20.75	21.70
Illinois	15.62	21.02	22.14
Corn Belt States <u>9/</u>	15.55	20.50	21.23
Western Texas <u>10/</u>	15.20	20.22	21.09
New Mexico	14.30	19.19	19.97
Northwest States <u>11/</u>	15.37	20.77	21.69
All Federal Order Areas <u>12/</u>	15.82	20.88	21.74
California <u>13/</u>	14.33	19.80	19.67

1/ Areas for which prices are reported for at least 75% of the milk marketed under Federal milk orders. 2/ Net pay prices received by dairy farmers for milk. Prices reflect all payments received for milk sold and all costs associated with marketing the milk. Prices are weighted averages of the prices reported for all orders receiving milk from the reporting area and are reported at the average butterfat tests. Prices do not include any Milk Income Loss Contract (MILC) payments, but do include, for the most part, the assessment under the Cooperatives Working Together (CWT) program. 3/ Includes Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. 4/ Includes all counties to the east of those listed in 8/. 5/ Includes Kentucky, North Carolina, South Carolina, Tennessee, and Virginia. 6/ Includes Alabama, Arkansas, Georgia, Louisiana, and Mississippi. 7/ Includes the counties Vernon, Cedar, Polk, Dallas, Laclede, Texas, Dent, Crawford, Washington, St. Francois, and Perry, and all those to the south of these. 8/ The counties of Warren, Elk, Clearfield, Indiana, Westmoreland, and Fayette, and all those counties to the west of these. 9/ Includes Kansas, Nebraska, and the Missouri counties to the north of those listed in 7/. 10/ Includes all counties to the west of Fanin, Hunt, Van Zandt, Henderson, Houston, Cherokee, Nacogdoches, and Shelby. 11/ Includes Oregon and Washington. 12/ Weighted average of prices for all selected reporting areas. 13/ Calculated by California Department of Food and Agriculture, and published in "California Dairy Information Bulletin."





GRAPH BY DMN; NASS DATA

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