



September 12, 2008

Dear Forward Contracting Member:

I wanted to write you and provide some perspective on the markets.

Class III and other commodity futures prices have seen dramatic swings this year. For instance, between mid-June and mid-July, a host of commodity prices hit new highs and have declined appreciably since then. As an example, the nearby corn futures contract peaked near \$8.00 per bushel in late June. Currently, the September 2008 corn contract is trading around \$5.25, and the 2009 contracts are trading between \$5.50 and \$6.00 per bushel. Likewise, soybean meal is down quite a bit – as is crude oil, which has been flirting with a \$100 per barrel price level this week – down from over \$140 per barrel.

Class III milk futures have seen a similar change. The 2009 contracts peaked above \$20.00 per hundredweight between mid-June and mid-July.

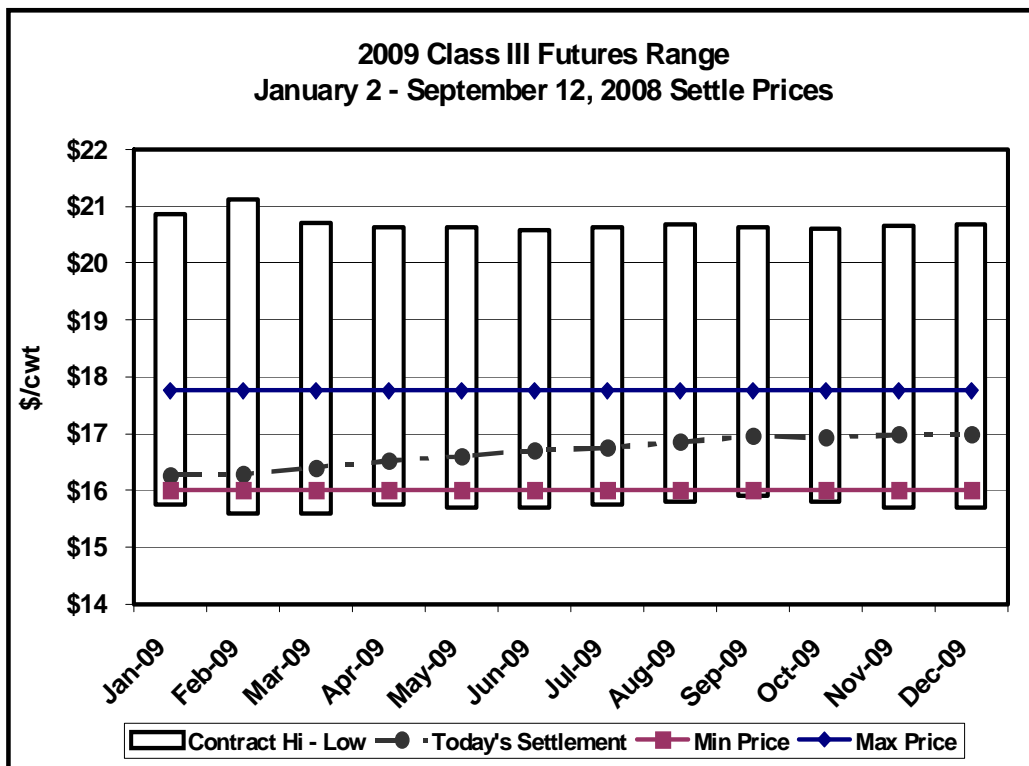
A murky cauldron full of factors have mixed together to cause the futures price to both appreciate significantly, and depreciate significantly in a matter of a few months. At the base are certain fundamental factors – lead by growing incomes in emerging economies around the world and upgrades to diets and lifestyles that ensue. Also, there appears to be some speculative pressures that contributed to the volatility. A case in point might be the futures markets' reaction to June's Midwestern floods, and their impact on an already tight corn supply – fundamentally tighter due to expanding ethanol production. With corn being a large component of purchased dairy feed and milk production costs, Class III milk futures increased along with corn prices. As markets realized that the flooding was not as devastating to the US corn crop as first thought, corn and milk futures prices declined.

More recently, markets have likely been experiencing the impacts of lingering high prices that are adversely impacting demand, and ultimately resulting in lower prices. This appears to be occurring in many commodities including dairy products. Slowing worldwide cheese demand and lower international prices contributed to the US cheese price decline in August. As CME cheese prices declined, there were many carloads of cheese transacted on the cash exchange by a number of different parities – as opposed to the price dropping without any sales. This signals a need for cheese by the purchasers – more likely later on in the year. If this is the case, it may suggest that businesses bought ahead for later in the year, and their need for cheese will not be as strong

over the upcoming months. This may limit the upside potential for cheese and Class III prices in the near term.

Lower whey powder prices and the pending implementation of the Federal Order make allowance decision, are also causing lower Class III futures prices. Whey changes the Class III price by about 6-cents for every one-cent per pound change in the whey price. Whey futures prices are trading around \$0.17 per pound through most of next year; down about a dime from a few months ago – lowering Class III prices by about \$0.60 per cwt. The make allowance decision, expected to be implemented in October, will reduce Class III prices by another \$0.35 per cwt. These events taken together have lowered futures prices by nearly \$1.00 per cwt. In order to get to a Class III price of \$18.00, with current butter and whey prices, cheese prices have to be around \$2.00 per pound. Today's \$1.90 cheese price generates a Class III price of about \$16.75 per cwt.

Katie has put together the following chart to help bring some perspective on 2009 forward contracting opportunities.



The chart shows the high and low Class III settlement prices since January 2008, for each of the 2009 futures contracts. It also highlights today's settlement. Included on the graph is the minimum (\$16.00) and maximum (\$17.75) prices for a fence forward contract offered at about \$0.24 per cwt. Going forward, we are going to have this chart updated and placed on our website. Keep in mind, on average, there will be about a \$1.00 to \$1.50 per cwt basis on top of your Class III forward contract price.

To date, the highs for all of the 2009 futures contracts were hit during the April – July run up in commodity prices when the 2009 Class III futures reached \$20 to \$21 in each month. Excluding the April – July futures prices, the highs would range between \$18 and \$19, about \$2 lower, and not much higher than the ceiling price in the fence forward contract.

Going forward there will be significant milk price volatility with prices rising and falling in large increments. Managing a business in this environment will be challenging. Risk Management Services offers a number of programs to better control your future milk revenue.

Please let Katie or I know how we can help you put together a plan to manage your milk price with one of the many diverse RMS programs. We can be reached at 1-800-654-8838.

Take care!

A handwritten signature in black ink that reads "Edward W. Gallagher". The signature is written in a cursive style with a large initial "E".

Edward Gallagher
Vice President
Economics and Risk Management

Risk Management Services Update

This mailing is intended to keep members informed of forward contracting and stabilizer pricing programs that RMS offers. In addition to providing price estimates, this email list will also be used to alert members of available customer contracts, new products, and any other changes, such as a drastic market rise or fall, that may impact your risk management decisions.

Friday 09/12/08 Prices:

Averages		Additional Fees
2008 Oct - Dec Contract Price	\$16.59	
2009 Jan - Dec Contract Price	\$16.52	
2010 Jan - Jul Contract Price	\$16.97	
Upside Rider		
October - December 2008		
\$18.00 Strike Price		\$0.23
January - December 2009		
\$19.00 Strike Price		\$0.52
Minimum Price Contract		
October - December 2008		
\$16.00 Strike Price		\$0.39
January - December 2009		
\$15.00 Strike Price		\$0.55
Fence Contract		
October - December 2008		
\$16.00 Floor		
\$18.00 Ceiling		
Total Cost		\$0.23
January - December 2009		
\$16.00 Floor		
\$17.75 Ceiling		
Total Cost		\$0.24
Blend Price Stabilizer		
1-Year CNY Zone	\$15.50	Rolling
PPD Minimum Price Stabilizer		
1-Year CNY Zone	\$0.30	Rolling

Prices listed are based on CME futures and option activity for September 12, 2008 these listed prices are not actual contract offers, but are intended as price guides. Forward contract offers are determined daily on the CME activity and are subject to change. If you are interested in a contract, please call Risk Management Services, to discuss current opportunities.

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