THE MARKET ADMINISTRATOR'S REPORT

TEXAS MARKETING AREA

NEW MEXICO - WEST TEXAS MARKETING AREA

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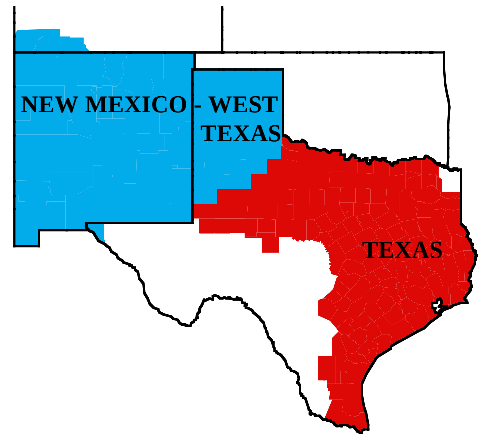

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MARKET SUMMARIES FOR MAY

The May Class III price decreased $1.13 from the previous month to $10.88. The Class II price for May of $13.11 per hundredweight decreased 51 cents from $13.62 in April. May's Class III-A price increased $1.08 from April's level to $13.96.

Texas: Producers who delivered milk to handlers located in Zones 1 and 2 of the Texas Milk Market Order received $13.93 per hundredweight for deliveries of milk containing 3.5% butterfat. The May price was down 53 cents from April.

Producers delivered a total of 600,113,514 pounds of milk during May. On a daily basis this represents a decrease of 2.98 percent from the producer receipts level in April and it represents a decrease of 11.83 percent when compared to the producer receipts level of May 1997.

Producer milk classified as Class I during May amounted to 42.96 percent of total producer receipts. This figure is down from April's 44.11 percent but it is up from 41.38 percent in May 1997. The average butterfat test of producer milk pooled during May 1998 was 3.447 percent.

New Mexico - West Texas: Producers who delivered milk to handlers located in Zone 1 of the New Mexico - West Texas Milk Market Order received $12.80 per hundredweight for deliveries of milk containing 3.5% butterfat. The May price was down 44 cents from its April level.

Producers delivered a total of 199,728,494 pounds of milk during May. On a daily basis this represents a decrease of 9.42 percent from the producer receipts level in April but it represents an increase of 39.18 percent when compared to the producer receipts level of May 1997.

Producer milk classified as Class I during May amounted to 25.38 percent of total producer receipts. This figure is down slightly from 25.80 percent in April and it is down from 36.79 percent in May 1997. The average butterfat test of producer milk pooled during May 1998 was 3.433 percent.

DAIRY SITUATION AND OUTLOOK

Milk production has run just slightly above a year earlier thus far in 1998, even with near-record winter milk prices. Less than favorable structural conditions and feed problems have kept milk production stagnant since late 1996. However, a substantial new expansion may be coming -- if feed prospects continue bright. Asian economic woes and the resulting weakness in demand for U. S. feeds have helped ease dairy farmers's feed problems. Smaller exports, a mild winter, and an early spring caused alfalfa hay stocks to be less tight than expected. Good early forage growth in most growing areas indicate favorable prospects for this season. If weather stays favorable for 1998 crops, dairy ration prices could be substantially lower by late this year. Milk-feed price ratios are projected to be moderate this spring and summer, before turning favorable in late 1998 and 1999. If the forage base also is restored to health, growth in milk per cow could start to accelerate as 1998 progresses. Milk per cow is expected to increase slightly less than 2 percent in 1998, followed by a 2 percent rise next year. Returns over concentrate costs in 1998 are projected to increase 6 to 8 percent from 1997 but will stay well below the relatively strong returns of 1996. Another small rise is expected in 1999. Milk cow numbers are expected to decrease about 1 percent in 1998, with a slightly slower decline in 1999. Fractional increases in milk output are projected for this spring and summer, followed by 1 percent rises in late 1998 and 1999. Feed conditions are key to this expansion. Tight supplies of dairy-quality forage and high concentrate prices have been the major limiting factors since 1996.

Dairy product demand has been mixed. Sales of milkfat have been strong, even though milkfat prices have been high. Milkfat demand has definitely recovered from its weakness of 5 to 10 years ago. Sales of skim solids, in contrast, have been weak despite relatively attractive prices. Winter sales of products using both milkfat and skim solids were generally lackluster but not as weak as use of skim milk products. Expected growth in the economy and projected steady retail dairy prices should provide for strong dairy product sales. But the recent weakness indicates that use may not be as robust as would normally be expected. Sales of skim solids are projected to increase 1 to 2 percent in 1998 and in 1999, assuming that a significant share of the recent sluggishness resulted from less-than-normal seasonal rebuilding of pipeline inventories. Milkfat sales are expected to rise at a similar rate in 1998, before dropping back to about 1 percent growth in 1999 as the higher prices start to trim growth.

Contracts accepted to export nonfat dry milk and dry whole milk under the Dairy Export Incentive Program (DEIP) reached the announced total allocations for the July 1997 through June 1998 period, as expected. Contracts for cheese also covered almost all of its allocation. USDA announced its intention to make those unshipped quantities for which contracts had been accepted (and counted against the limits) available for new contracts. For nonfat dry milk, this will enable exporters to continue to do significant DEIP business without the disruption of waiting for the July 1 start of a new commitment year. Contracts under DEIP are expected to continue at the fairly steady pace that has typified 1998 so far, with a sizable share of the contracts covering an extended delivery period. The major exception would be the uncertain prospects for Mexican purchases. Additional contracts for butter are unlikely because of the very tight domestic markets for milkfat.

The long-delayed seasonal declines in wholesale cheese prices began in late February and were large in April. Cheese prices are expected to stay near current levels into summer. Gains in milk production are projected to be modest, and butter-powder operations have a substantial advantage in competing for milk. Also, cheese movement should pick up quickly once prices stabilize, as pipeline holdings are rebuilt for second-half needs. The seasonal reckoning of cheese prices dropped the BFP $1.31 per cwt. between February and April. The May decrease also will be large and a June decline is possible. If cheese prices stabilize as expected, the seasonal low in the BFP probably will stay above $11 per cwt. If growth in milk production appears likely to accelerate, seasonal rises may be slow to develop this summer. A substantial seasonal increase is projected, but the peak may not match the January-February levels. Milk prices in 1999 are expected to be unchanged from 1998. For the year, farm milk prices, the farm-retail price spread, and retail dairy prices are all projected to average just slightly above 1997.

Source: "Livestock, Dairy, and Poultry Monthly, LDP-51, May 20, 1998, ERS, USDA.

AREAS CHOSEN FOR DAIRY OPTIONS

The USDA has narrowed the field of dairy producers who are eligible to participate in a new options program that aims to provide a safety net for milk prices. Under the $11 million Dairy Option Pilot Program, producers will buy exchange-traded options to guarantee a minimum price for their milk. USDA said 35,000 dairy producers farm in the U.S. counties it selected to participate in the program. Only 8,400 of the 35,000 farmers, however can receive training and financial assistance

In order to participate, farmers must prove that they produced at least 100,000 pounds of milk over any consecutive six-month period during the last 12 months. The pilot will last six months. After undergoing the training program, producers may use options to guarantee the price of between 100,000 and 600,000 pounds of milk. USDA will pay up to 80 percent of the options premium costs for transactions.

The selected states to be included in the pilot program are California, Minnesota, New York, Pennsylvania, Texas, Vermont and Wisconsin. Only selected counties within these states will be allowed to participate in the program. In Texas, those counties include: Comanche, Erath, Hopkins, Johnson, Van Zandt and Wood.

USDA DENIES MILK PRICE FLOOR

Agriculture Secretary Dan Glickman has rejected a petition from some dairy producer groups to set a minimum floor price for milk. Dairy Farmers of America, supported by a number of other farm groups had petitioned USDA to set a temporary floor price of $13.50 per hundredweight of milk.

One reason cited for the decision was that there was not enough evidence that the floor would help all those struggling with low prices. The Secretary concluded that setting a minimum price would most benefit larger producers and would not be equally effective in all regions of the country. Dairy farmers themselves were regionally split on the issue. The Secretary also said federal law requires that such a floor be set only if there is an inadequate supply of milk available to consumers and presently no such shortage exists.

TOP TEN TEXAS COUNTIES a/ – MAY 1998

County	Number of Producers	Pounds	% Change From 1997	County	Number of Producers	Pounds	% Change From 1997
1. Erath	152	132,264,810	+3.95	7. Wood	74	18,618,599	-8.45
2. Hopkins	265	59,261,260	-10.80	8. Hamilton	30	18,015,128	+10.66
3. Comanche	46	38,918,227	+4.59	9. Cherokee	31	12,889,829	-8.14
4. El Paso	9	24,348,043	+15.19	10. Van Zandt	26	11,436,666	-.05
5. Archer	60	21,713,987	+4.93	Ten County Total	738	356,127,322	+1.55 b/
6. Johnson	45	18,660,773	-2.11	Other Counties Total	576	166,648,968	-7.29
				Texas Total	1,314	522,776,290	-1.45

a/ Includes all known Grade "A" milk produced on farms located in Texas.
b/ Compared to top ten counties for the month in the previous year.

Minimum Prices at 3.5%, for Federal Orders 126 and 138 (Zone 1) — Formula Prices (3.5%) and Price Quotations

Month	Class I a/ 126	Class I a/ 138	Class II	Class III	Class III-A	Uniform a/ 126	Uniform a/ 138	B F Diff.	Grade A Butter	Block Cheese	Spray Powder
	-------- Dollars Per Hundred Wt. --------							¢/Point	-------------Cents Per Pound--------------		
April 1997	15.62	14.81	12.76	11.44	12.10	13.61	12.70	9.4	91.90	123.78	114.40
May	15.65	14.84	12.79	10.70	11.56	13.32	12.48	9.0	87.40	116.64	109.83
June	14.60	13.79	11.74	10.74	12.22	12.89	11.90	11.4	105.00	115.83	107.88
July	13.86	13.05	11.00	10.86	12.06	12.73	11.72	11.0	101.84	117.67	107.65
August	13.90	13.09	11.04	12.07	11.88	13.03	12.42	10.6	101.32	130.24	107.18
September	14.02	13.21	11.16	12.79	11.87	13.18	12.95	10.6	103.37	137.82	107.11
October	15.23	14.42	12.37	12.83	13.50	14.21	13.56	15.3	137.35	138.35	106.91
November	15.95	15.14	13.09	12.96	14.01	14.70	13.73	16.7	148.42	138.52	107.13
December	15.99	15.18	13.13	13.29	12.46	14.80	13.81	12.2	116.97	141.63	107.40
Averages 1997	14.93	14.12	12.07	12.05	12.36	13.59	12.81	11.3	106.63	129.26	110.01
January 1998	16.12	15.31	13.26	13.25	12.04	14.97	13.68	11.4	110.61	141.65	105.93
February	16.45	15.64	13.59	13.32	12.89	15.00	13.88	14.0	129.63	141.63	105.21
March	16.41	15.60	13.55	12.81	12.67	14.62	13.67	13.5	125.05	137.93	104.67
April	16.48	15.67	13.62	12.01	12.88	14.46	13.24	14.2	128.56	130.72	104.26
May	15.97	15.16	13.11	10.88	13.96	13.93	12.80	17.5	149.45	120.34	103.48
June	15.17	14.36	12.31								
July	14.04	13.23	11.18								

a/ Subject to zone and location adjustments. b/ Simple averages

TOP NEW MEXICO COUNTIES a/ – MAY 1998

County	Number of Producers	Pounds	% Change From 1997	County	Number of Producers	Pounds	% Change From 1997
1. Chaves	41	136,510,474	+6.48	7. Valencia	11	10,006,570	-18.05
2. Dona Ana	23	70,264,491	+1.16	8. Bernalillo	8	9,925,238	+1.81
3. Roosevelt	29	46,168,656	+2.79	9. Socorro	7	7,864,518	+14.09
4. Curry	12	44,843,983	+46.26				
5. Lea	13	30,417,104	+36.53	Nine County Total	150	380,019,862	+11.10
6. Eddy	6	24,018,828	+35.88	Other Counties Total	5	8,288,293	-6.53
				New Mexico Total	155	388,308,155	+10.66

a/ All known Grade "A" milk produced on farms located in New Mexico.
b/ Compared to top counties for the month in the previous year.

POUNDS OF GRADE A MILK MARKETED BY PRODUCERS LOCATED IN TEXAS BY MONTHS: JANUARY 1996 THROUGH MAY 1998, WITH PERCENTAGE COMPARISONS

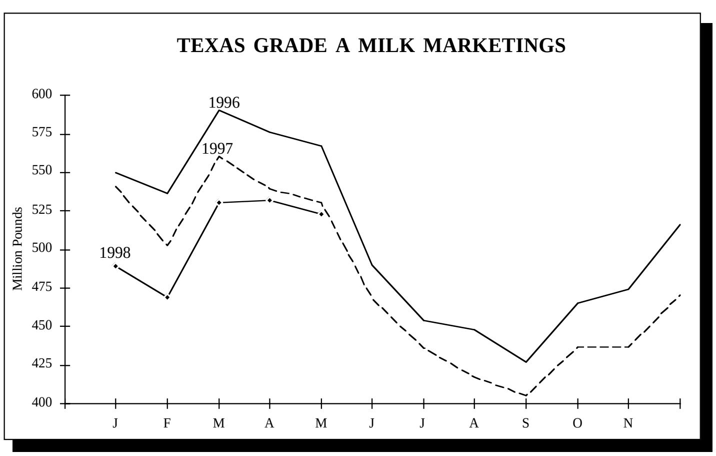
MONTH	1996 POUNDS	Number of Producers	1997 POUNDS	Number of Producers	1998 POUNDS	Number of Producers	PERCENT CHANGE 1997/96	PERCENT CHANGE 1998/97
January	549,914,311	1,786	540,918,023	1,610	491,168,340	1,359	-1.64	-9.20
February	536,326,949	1,773	503,177,566	1,591	469,305,849	1,347	-2.83	-6.73
March	590,936,348	1,745	560,823,025	1,566	530,615,413	1,337	-5.10	-5.39
April	575,799,475	1,738	539,258,903	1,553	531,997,106	1,336	-6.35	-1.35
May	567,120,914	1,714	530,457,547	1,550	522,776,290	1,314	-6.46	-1.45
June	490,380,980	1,683	468,546,651	1,523			-4.45	
July	454,376,230	1,670	435,777,197	1,489			-4.09	
August	448,420,253	1,652	417,271,524	1,463			-6.95	
September	427,623,846	1,639	405,563,476	1,435			-5.08	
October	466,085,603	1,637	436,528,559	1,408			-6.34	
November	474,250,855	1,636	436,607,225	1,391			-7.94	
December	516,304,359	1,620	470,803,040	1,368			-8.81	
Years Total	6,098,233,434		5,745,732,736				-5.78	

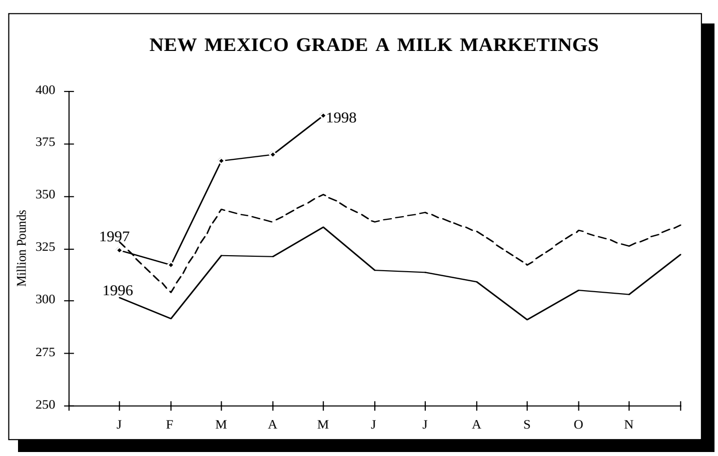
*Revised figures

POUNDS OF GRADE A MILK MARKETED BY PRODUCERS LOCATED IN NEW MEXICO BY MONTHS: JANUARY 1996 THROUGH MAY 1998, WITH PERCENTAGE COMPARISONS

MONTH	1996 POUNDS	Number of Producers	1997 POUNDS	Number of Producers	1998 POUNDS	Number of Producers	PERCENT CHANGE 1997/96	PERCENT CHANGE 1998/97
January	301,646,087	153	328,059,604	156	324,314,276	158	+8.76	-1.14
February	291,741,013	154	303,972,265	156	317,500,751	156	+7.91	+4.45
March	321,854,914	154	343,866,862	157	366,656,779	157	+6.84	+6.63
April	321,032,089	153	337,943,697	157	369,782,775	156	+5.27	+9.42
May	335,537,514	153	350,910,125	158	388,308,155	155	+4.58	+10.66
June	314,856,503	153	337,592,757	158			+7.22	
July	313,553,863	154	342,391,766	159			+9.20	
August	309,399,050	155	333,406,557	156			+7.76	
September	293,390,938	157	317,181,279	159			+8.11	
October	307,608,027	156	333,587,208	158			+8.45	
November	303,433,595	157	326,212,021	158			+7.51	
December	322,470,035	157	336,117,343	157			+4.23	
Years Total	3,736,523,628		3,991,241,484				+6.82	

*Revised figures





TEXAS AND NEW MEXICO MARKET COMPONENT TEST

	Butterfat		Protein		Lactose		S-N-F		SCC*	
Month	TX	NM	TX	NM	TX	NM	TX	NM	TX	NM
May	3.48	3.38	3.19	3.11	4.79	4.82	8.69	8.63	387	250
June	3.46	3.33	3.16	3.08	4.77	4.81	8.64	8.60	436	264
July	3.44	3.33	3.14	3.06	4.74	4.80	8.59	8.57	460	277
August	3.42	3.37	3.17	3.07	4.70	4.78	8.58	8.56	484	301
September	3.50	3.41	3.21	3.13	4.74	4.80	8.65	8.64	443	291
October	3.62	3.53	3.28	3.23	4.75	4.81	8.75	8.75	410	256
November	3.78	3.67	3.32	3.27	4.74	4.78	8.76	8.76	366	238
December	3.80	3.74	3.30	3.28	4.80	4.81	8.80	8.81	378	290
Average 1997	3.58	3.50	3.22	3.17	4.77	4.80	8.70	8.68	409	269
January 1998	3.74	3.75	3.25	3.24	4.80	4.80	8.76	8.76	409	408
February	3.66	3.63	3.22	3.21	4.81	4.82	8.74	8.75	379	325
March	3.64	3.60	3.24	3.20	4.82	4.82	8.75	8.74	372	305
April	3.52	3.52	3.21	3.17	4.84	4.84	8.73	8.71	336	274
May	3.46	3.41	3.17	3.13	4.84	4.83	8.68	8.67	339	256

* In thousands.

NEW MEXICO - WEST TEXAS MILK MARKET AT A GLANCE

	REPORTED MAY 1998	REPORTED APR. 1998	REPORTED MAY 1997
TOTAL UTILIZATION			
CLASS I	52,641,389	55,957,254	54,390,476
CLASS II	9,187,218	7,686,214	7,117,531
CLASS III/III-A	176,989,668	188,711,717	151,749,235
CLOSING INVENTORY (CLASS I, II AND III)	15,642,145	11,617,160	11,029,372
TOTAL UTILIZATION	254,460,420	263,972,345	224,286,614
DAILY CLASS I UTILIZATION	1,698,109	1,865,242	1,754,531
MAY -DAILY CLASS I COMPARED TO:		- 8.96%	- 3.22%
CLASS I YEAR TO DATE (IN THOUSANDS)	274,942	222,301	277,273
% CHANGE FROM PREVIOUS YEAR	- .84%	- .26%	- 6.86%
TOTAL RECEIPTS			
PRODUCER RECEIPTS CLASSIFIED AS CLASS I	50,685,321	55,047,603	52,801,518
PRODUCER RECEIPTS CLASSIFIED AS CLASS II	7,945,661	6,214,236	5,488,689
PRODUCER RECEIPTS CLASSIFIED AS CLASS III/III-A	141,097,512	152,118,468	85,216,699
TOTAL PRODUCER RECEIPTS	199,728,494	213,380,307	143,506,906
OTHER SOURCE A/	43,150,579	38,531,991	68,859,535
OPENING INVENTORY	11,567,300	12,060,047	11,916,978
OVERAGE	14,047		3,195
TOTAL RECEIPTS	254,460,420	263,972,345	224,286,614
DAILY PRODUCER RECEIPTS	6,442,855	7,112,677	4,629,255
MAY -DAILY PRODUCER RECEIPTS COMPARED TO:		- 9.42%	+ 39.18%
PRODUCER RECEIPTS YEAR TO DATE (IN THOUSANDS)	1,030,096	830,368	952,671
% CHANGE FROM PREVIOUS YEAR	+ 8.13%	+ 2.62%	+ 26.74%
AVERAGE BUTTERFAT TEST OF PRODUCER RECEIPTS	3.433%	3.529%	3.442%
% PRODUCER MILK CLASSIFIED AS CLASS I	25.38%	25.80%	36.79%
NUMBER OF PRODUCERS	207	166	127
AVERAGE DAILY DELIVERY PER PRODUCER	31,125	42,847	36,451
NUMBER OF POOL HANDLERS	15	14	16

A/ INCLUDES MILK, SKIM MILK, CREAM AND SKIM EQUIVALENT OF CONCENTRATED SKIM MILK PRODUCTS

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TEXAS MILK MARKET AT A GLANCE

	REPORTED MAY 1998	REPORTED APR. 1998	REPORTED MAY 1997
TOTAL UTILIZATION			
CLASS I	261,757,200	264,828,878	282,505,162
CLASS II	123,994,324	120,130,519	120,137,187
CLASS III/III-A	235,260,086	235,338,891	308,058,733
CLOSING INVENTORY (CLASS I, II AND III)	31,447,353	30,868,531	25,096,359
TOTAL UTILIZATION	652,458,963	651,166,819	735,797,441
DAILY CLASS I UTILIZATION	8,443,781	8,827,629	9,113,070
MAY -DAILY CLASS I COMPARED TO:		- 4.35%	- 7.35%
CLASS I YEAR TO DATE (IN THOUSANDS)	1,333,757	1,072,000	1,409,240
% CHANGE FROM PREVIOUS YEAR	- 5.36%	- 4.86%	+ 4.73%
TOTAL RECEIPTS			
PRODUCER RECEIPTS CLASSIFIED AS CLASS I	257,834,274	264,054,906	281,614,825
PRODUCER RECEIPTS CLASSIFIED AS CLASS II	115,547,831	110,333,310	103,076,350
PRODUCER RECEIPTS CLASSIFIED AS CLASS III/III-A	226,731,409	224,199,623	295,937,488
TOTAL PRODUCER RECEIPTS	600,113,514	598,587,839	680,628,663
OTHER SOURCE A/	21,469,912	20,563,963	25,099,331
OPENING INVENTORY	30,875,537	32,015,017	30,034,093
OVERAGE			35,354
TOTAL RECEIPTS	652,458,963	651,166,819	735,797,441
DAILY PRODUCER RECEIPTS	19,358,500	19,952,928	21,955,763
MAY -DAILY PRODUCER RECEIPTS COMPARED TO:		- 2.98%	- 11.83%
PRODUCER RECEIPTS YEAR TO DATE (IN THOUSANDS)	2,809,339	2,209,226	3,035,053
% CHANGE FROM PREVIOUS YEAR	- 7.44%	- 6.17%	- 3.28%
AVERAGE BUTTERFAT TEST OF PRODUCER RECEIPTS	3.447%	3.523%	3.438%
% PRODUCER MILK CLASSIFIED AS CLASS I	42.96%	44.11%	41.38%
NUMBER OF PRODUCERS	1,282	1,359	1,846
AVERAGE DAILY DELIVERY PER PRODUCER	15,100	14,682	11,894
NUMBER OF POOL HANDLERS	32	31	35

A/ INCLUDES MILK, SKIM MILK, CREAM AND SKIM EQUIVALENT OF CONCENTRATED SKIM MILK PRODUCTS.